

FAR EASTERN ECONOMIC REVIEW

Vol. VI.

Hongkong, March 9, 1949.

No. 10

FROM THE CONTENTS:—

Annual Meeting of H.K. & S'hai Bank
Business Conditions in Hongkong
Financial Developments in China

Trade with North China
Produce Markets
Commodity Markets

Selected Hongkong Exports:
Tung Oil Trade
Hongkong Public Finance

Cooperation with the New China

Hongkong is not in any danger—whatever lords, scribes and missionaries may say. Too many ignoramuses have delivered themselves recently of their worries about the “future of Hongkong”; or had they ulterior motives, did they want at the expense of Hongkong baulk better relations with the coming coalition government of China? Those who were well-meaning should know that they have done this Colony a disservice with the conjuring up of assorted calamities—sabotage, general strike, blockade, boycott—as there is no basis for the fears of these weebegone prophets of trouble.

Hongkong must remain a good neighbour of China; its record in the past is clean and therefore promising for good relations with the popular coalition government now emerging. We must not be provoked into taking sides against the vast majority of the Chinese people whose fervent wish it is to see the remnants of the Kuomintang ruling clique swept away and to unite and establish a coalition between the democratic, liberal and communist parties. Mao's “New Democracy” is triumphant; the youth of the nation follows this man who is regarded by many as China's messiah. Great, excited hopes of the youth for national regeneration are voiced wherever Chinese meet. In Communism, they desperately entreat, there shall be salvation. Vox populi, vox Dei.

Out of an intense struggle which wrought far more moral and economic havoc than the actual carnage, a valiant and determined nucleus of a battle-hardened people comes now into view whom nobody can deny recognition for their feats. Long years of strife and tribulation, which for the majority of the present CCP leadership commenced back in 1927, are now coming to their end in the catharsis of the Chinese people.

* * *

The existence of Hongkong as a British Colony devoted to the pursuit of commerce and manufacturing is not prejudicial to the economy of China, on the contrary, its functions as the Far East's principal entrepot have most beneficial effects on the material prosperity of the Chinese in this part of the world. There are only emotional but no rational demands for the retrocession of Hongkong or the termination

of the New Territories lease before its stipulated expiry. Those self-seeking “patriots” of the Kuomintang's inner circle who fomented agitation against Hongkong while transferring their funds to the Colony used this inflammable issue as a camouflage for their most profitable activities elsewhere.

Hongkong should be, and will be, of considerable value for the people and the new administration of China; it will facilitate imports and exports and will continue to act as honest broker whose services will be found indispensable. Genuine cooperation all around will be the precondition for harmonious and mutually profitable relations.

* * *

A meeting of leaders of political parties, associations and dissenters of the Kuomintang which took place at the end of February in China's old capital of Peiping was, to a large extent, representative of the liberal and democratic movements in China of today which have been aiming at the establishment of a coalition government. Among these leaders were:

Marshal Li Chai-sum (KMT Revolutionary Committee), Shen Chun-ju and Chang Po-chun (China Democratic League), Ma Shu-tun (China Association for Promotion of Democracy), Pen Tse-min (Peasants and Workers Democratic Party), Sha Chien-li (People's National Salvation Association), Wang Kuei-lun and Mason Woo (San Min Chu I Comrades Association), Gen. Tsai Ting-kai (KMT Association for Promotion of Democracy), Chen Chi-yen (China Freemason Party), Chang Nai-chi (Association for Democratic Reconstruction), Kuo Mo-jo and Mao Tun, noted writers.

The character and the complexion of the emerging national government of China will not be totalitarian but the CCP will, by virtue of its strength and the achievements of the past, shape the internal and external policies in consultation, it is hoped, with the minority representatives of the people. It will be advisable to refrain from prejudging the possible developments of China's political life by imputing to the CCP intentions which it may not harbour at all, such as the establishment of undisputed and dictatorial rule. A different course, we venture to suggest, will be followed by the realistic policy makers of the CCP. The first principle of the actions of the coalescing parties will be concerned with the elevation of

the standard of living of the people and the development of the country's resources and industries.

* * *

A sane and unbiased, business-like view of the current Chinese scene is taken by the Australian journal *Trade & Shipping Review*, of Sydney, which speaks for the Commonwealth traders and manufacturers when it delineates the attitude of Australia vis-a-vis the new China.

“The Communist Party of China or “Share-Wealth Party” had its origin in agrarian reform. To that necessity were added the discontent resulting from the period of the war lords, the ineffectiveness of the Central Government and the harsh taxation, which produced no benefits for the people but increased the hardships which they had to endure. It would appear possible, even probable, that, when the China war is ended, when Chiang and his leading supporters have disappeared from the scene, China will assume an entirely different aspect in the eyes of the Western world to that which has been so widely pictured recently. There may well be no question of domination by any outside Power, Asiatic or European.

“For Australia, the settlement of China is a matter of great importance. The industrialisation of that country must happen sometime or other. Under the new regime that industrialisation may take place considerably earlier than might have been anticipated under any other regime. There appears to be every evidence that Mao and his supporters are Chinese before being anything else. Whether the form of government is democratic, in the Western meaning of the word, does not really matter to Australia. The relations of the Commonwealth to China, and, indeed, those of all the Western nations, will be limited to diplomatic and commercial matters. Whether China will have a Parliament as we understand the word, whether each of the hundreds of millions of adults shall have a vote is no business of Australia. This country should be very satisfied to see a new China, having a stable Government, powerful enough to defend itself against aggression, and entering into the comity of nations to maintain peace in the world and develop that intercourse, economic and cultural, between nations, which can be the foundation of world peace.”

Business Conditions and Outlook in Hongkong

Trade during the last month was again characterised by a relative scarcity of money; stocks remain as high as in the peak month of 1948 in spite of buoyant exports. Warehouse congestion is becoming chronic here as Chinese dealers from outports prefer to keep, as long as they are financially able, their cargoes in the safe custody of Hongkong.

Demand in China is on the decline which surprises nobody as economic deterioration continues, the purchasing power further dwindles and production, in the fields, mines and factories, is partly suspended. That the present lull in war operations is only temporary and the Communist armies' crossing of the Yangtze impending is generally taken for granted; that means that for the current year there cannot be any improvement of the present nation-wide depression.

Under such conditions Hongkong traders more than ever turn to other Far Eastern markets for business connections and the sound development of commerce in the future. The decline of China as a consumer and producer has been the most potent promoting force for local Chinese traders' venturing into international commerce.

In the neighbouring countries of the Far East a saturation point has however been reached since several months and it proves ever more difficult to sell in a market which constantly grows more competitive. Profit margins are bound to be whittled down to the limit and many traders will find business with consumers in Asia extremely hard. The hunger for goods is nevertheless here but the purchasing power of the masses is as low as ever and no advance for the immediate future can be visualised. The imposition of import controls in countries like Siam and the Philippines which were good buyers and gave Hongkong ample opportunities is another hurdle which confronts businessmen here; volume of trade, especially exports to them, will decrease this year compared to 1948.

Another unfavourable aspect for trade is the gradual hardening of sterling and the tendency on the part of many governments to conserve not only US\$ but also sterling exchange. The quota and import licensing system is spreading like a contagious disease.

Promising results for traders for the next few months may come from business with Korea, south and north, North China and Manchuria, and Japan. The slow but steady re-entry of rich North China and Manchuria into world commerce is one of the most important trading chances which Hongkong businessmen discern; communications will gradually return to normal and barter, which is too cumbersome for modern business practices, will be replaced by regular financial transactions. Local merchants will be

well advised to keep out of the political cauldron and mind, in the very sense of the word, their own business. To channel trade with North China, Manchuria and Northeast Asia along profitable avenues it is essential that real commercial cooperation be observed, that is to say, every effort will have to be made to procure the goods required in the North in the world markets in exchange for the mining and agricultural produce of North China and Manchuria. Development of trade with North Korea is also holding out better opportunities than trade with South Korea if only for the relative lack of American competition in North Korea.

Business with Japan can only be increased if Hongkong can purchase sufficient raw materials and other commodities required in Japan as the present form of trading must by necessity remain at least until the fixing of a single exchange rate in Tokyo, and even then the present arrangement (two-way account in US\$) is not so quickly to be abandoned. Provided that Hongkong traders are lucky and enterprising enough to get a larger share in Japan's import business, with the blessing of validating SCAP and approving Boeki-Cho, Japanese exports should come into the Colony, for re-export, in proportionately increasing volume. Prospects for such development are encouraging.

Another hope long deferred is Indonesia; although for the moment conditions in Java and Sumatra are far from settled, the prospects for increased trade have improved since the Dutch started to take over the area previously under control of the Republican (Soekarno) government. However, only the conciliation of the strife in Java will herald a new era of greatly expanded commerce in which Hongkong should share in no small extent.

The Hongkong market remains, with less than 2 million people living here of whom the majority are more vegetating than consuming, a small affair but still hundreds of merchants are making a good living on the fat of the local land. In contrast to the oriental population in surrounding areas of the Far East the people of Hongkong, by and large, can afford to buy more than their contemporaries. Retail shops' returns bear out this observation. A super-broker that Hongkong is, selling services—shipping and transport, banking and insurance—and not too cheap at that, the standard of living here is advancing and causing content among a relatively satisfied population who appreciate the amenities and opportunities of this unique British Colony.

To enhance this blissful state of ours there has been encouraging expansion of manufacturing activities which continues on the up and up. Temporary recessions in production are always levelled out and, over a

period, there is always progress, a fact which is clearly documented in the industrial statistics of Hongkong.

Since several months there have been increasing signs of surfeit in most consumer goods and as a result buying has become more selective, extension of credit sales has been noticed and merchandise stocks for local consumption have accumulated. In short supply continue however building materials and factory equipment. The existing shortage in especially iron, steel and other metal products is world wide; constructional steel, machinery, rolling stock, equipment etc. are in increasing demand everywhere and there is as yet no sign that supply will meet demand and that there will not occur the customary delays in fulfilling of orders.

Price trends here are favouring the consumer; although no index of wholesale prices is compiled by Government—a matter to be rectified in the near future, it is hoped—private chartists aver that the index number for beginning of 1949 against 12 and 24 months ago has dropped and is bound to drop further. The local dollar is supposed to buy more than a year ago, and actually it does. Retail prices have become most unsteady, haggling is now always a success for buyers and department stores' managers keep on telling the public that they are charging the lowest prices since the end of war and have had often to take losses when imported goods could not be cleared in time before new cargo arrived which was purchased below the old price.

The low levels of stock and share quotations are too well known to be cited here; it is too painful a matter for investors. To some extent the low share prices have also something to do with the general price trend and the anticipation of a decline in profits by companies; the turnover may not decline, it may even rise, but profit margins are in for a drastic trimming.

Even real estate prices have shown a weak tendency and that in the face of the wealthy Shanghai self-exiles and refugees who were, in their characteristic way, not squeamish about prices of land and houses once they had set their eyes and mind on them. Nevertheless, Crown land at auctions fetches less, the private land sales boom is over and the disposal of new houses, while still very profitable, meets more potential buyers' resistance than was observed here for many years. Price levels on the whole are more inclined to drop than to rise and lack of interest on the part of property speculators indicates which way the wind is going to blow.

Importers here are surprised how easy it is these days to get overseas sellers to reduce their quotations. Those who study the price developments in the U.S., who after all whistle the tune according to which we are dancing, sooner or later, will

notice that the gradual decline in agricultural prices has been a continuous process; and recently industrial consumer goods have shared in this decline though, it must be admitted, the majority of industrial commodities show steadiness and some even hardening. It can be prognosticated with some confidence that a reduction in orders for investment goods and further shrinking profits in the U.S. should eventually exert an unfavourable effect on production and prices. The only hope for a reversal of this process, albeit a vicious hope, is the more energetic rearmament of the combatants for the next world war which also involves ever higher stockpiling of so-called strategic materials. *C'est la vie, c'est la guerre.*

The anomaly of a glut in the money market with tightness experienced by importers and dealers has often been commented upon in this Review; the position is unchanged. There are several thousand million HK\$ lying idle in current, deposit and savings accounts, or frozen in the form of bullion and US\$ in hibernation in the local banks' vaults. No allowing 7 to 10 per cent dividends can defrost these hoards. Commercial banks are displeased with this plethora of deposits, as they cannot fully employ such funds. Almost every local bank shows excessive deposits in relation to discounts, loans and advances. The rate of interest as charged by commercial banks remains 5 at most 6 per cent, while fixed deposits secure not more than 2 per cent. Many banks, therefore, do not accept deposits against interest payment and savings accounts are only opened in 2 or 3 banks. Bank clearings, both in the recognised Bankers' Clearing-house and in the native bankers' and bullion dealers' clearing, show record figures and so do the bank note returns (as is outlined elsewhere in this issue).

The foreign exchange position of Hongkong is very active and the international strength of the HK\$, even without the linking to sterling—which is of course further conducive to the prestige of the local money—is recognised in all Far Eastern markets. The Colony's residents' earnings of exchange (other than sterling area currencies) are on the increase. But the investment of funds proves, more than ever, a perplexing problem not only for local Croesuses but also for the modest rank and file. Since about the beginning of this year there has been some capital moving out of Hongkong and into what might be considered more peaceful pastures. The "red" scare has done it. While, thus, some idle funds are going into hibernation in the U.S., Australia, Canada etc. the money congestion here remains as solid as before with prospects of new arrivals from China as the Yangtse fireworks are about to be set off.

REVIEW OF BUSINESS CONDITIONS IN THE FAR EAST

At the annual general meeting of shareholders on March 5, of the Hongkong & Shanghai Banking Corporation, the Chairman of the Board of Directors and Chief Manager (Hon. A. Morse) reviewed business conditions in the countries of the Far East as follows.

Progress in Britain

When we look back at the past year it will be generally agreed that one of the most striking developments has been the progress made by Great Britain in her recovery programme. There is now good reason to hope that within the next four years she will regain the overall pre-war standard of living and retain it in spite of the cessation of Marshall aid by that time. A point of interest is the steady hardening of sterling exchange during the past year, the importance of which was vigorously emphasised in the memorandum submitted by His Majesty's Government to the Organisation for European Economic Co-operation last December, but external aid, internal subsidies, exchange controls and marketing by official organisations make it difficult to get an exact picture of the situation. There are however signs that London has regained a portion of her former eminence in international trade, and she is, of course, the centre of that exceedingly important multilateral trading system, the Sterling Area.

A welcome contribution towards the United Kingdom balance of payments has been subscribed by the increase in invisible exports derived from banking, insurance, shipping and other sources, no small share of which comes from the services provided by British territories such as Malaya, whose contribution by means of its immensely valuable export products can hardly be over emphasised, and Hongkong with its indirect services from which the Home Government gains more than is generally realised. At the same time the benefits which accrue from British investments in China must not be forgotten. Their indirect value is considerable and this important stake in China, and particularly in Shanghai, deserves the closest attention of His Majesty's Government.

Development of Hongkong

When we opened our new Office in Hongkong in 1935 we thought that we had provided ample space in the banking hall for a long time to come but recently we found that we were getting so cramped that we had to move certain departments to upper floors. To meet expansion in another direction we opened a new Agency at Mongkok on the mainland on October 1st last. Twenty years ago when our Kowloon Agency was started this was done to keep in step with the rapid growth of Kowloon and to provide for the needs of the increasing body of residents. The continued growth of the Colony in population,

industry and trade has been remarkable since that date. For instance the population was then about 800,000 as compared with a rough estimate of nearly two millions now. The revenue of the colony was then about \$23½ millions and now it is over \$150 millions. Our balance sheet was then \$710 millions: it is now \$2,665 millions. Our note issue was then under \$65 millions: it was \$728 millions at December 31. The Clearing House figures for the past three years were \$3 thousand millions in 1946, 6½ thousand millions in 1947 and 8½ thousand millions in 1948. The latter is equivalent to about £516 millions which, although not an exact comparison, is higher than any of the provincial clearings in England in 1948, Liverpool being the nearest with £488 millions.

Nevertheless during the year business in Hongkong has to some extent been restricted by the various exchange control regulations and by the tightening up of the export regulations. Considering conditions elsewhere we cannot really complain that these measures are excessively rigid and I am satisfied that the authorities fully realise that without a considerable amount of elasticity the very important entrepot trade of the Colony would suffer serious damage and this would almost certainly have a deleterious effect on certain sections of the trade of the Commonwealth and the Sterling Area.

In the Report of the United Kingdom Trade Mission to China which was published last year is the following sentence "The more Hongkong can be made a show piece of progressive economic policies, of working democracy, of education, the more favourable are the indirect reactions on British trade likely to be." I fully agree with these views. While we should not be, and are not entirely satisfied with what is being done in the Colony, I believe that in the main Hongkong is working along the lines which the Trade Mission thought desirable. The Departments in the Government responsible for economic development are wide awoken: they are not afraid of introducing new ideas and they have encouraged new industrial development which is progressing steadily although still on a small scale and inclined to be handicapped by the high cost of labour.

The Hongkong General Chamber of Commerce is also doing useful work in support of economic expansion and it is satisfactory that the Chinese Manufacturers' Union should be growing in membership, prestige and usefulness. I am glad that the Colony's exhibition at the British Industries Fair is to be considerably enlarged this year, as this effort to make known the product of industry in Hongkong is well worth while.

In regard to education, progress has not been as rapid as we would wish owing to the extensive damage done

to schools and to the University during the war. The University during the past year received some valuable grants which, added to Sir Robert Ho Tung's gift of \$1 million will all help, but in order to set up the University in a state worthy of this Colony and fit to stand comparison with any other University in the East further funds are needed particularly for capital expenditure. I trust that Hongkong University may yet obtain a grant under the Colonial Development and Welfare Act.

In referring to the Colony becoming a show-piece of working democracy presumably the Trade Mission had in mind the proposed Municipal Council and the revision of the constitution of the Legislative Council which has been under consideration for nearly three years. While it is obvious that matters such as these need careful consideration by the legal authorities in London, it is to be hoped that we shall not have to wait much longer for the publication of the proposed legislation in its draft form so as to enable public opinion to develop its views on the problems involved and thus to assist Government to decide whether the proposals, as conceived, do or do not call for amendment.

For instance it might prove to be the case that opinion now favours a larger and more representative Legislative Council of which a considerable proportion of the members would be elected, as is the system in some Colonial territories, rather than a cumbersome Municipal organisation with restricted responsibility.

The progressive way in which Hongkong is developing is also shown in the rapid increase in air traffic. Passenger traffic has increased from 28,000 in 1946 to 227,000 in 1948. Air freight movements have expanded in much the same proportion. But the Kai Tak Airport, while constantly being improved is not suitable for an airport of the size which Hongkong now requires and steps to go ahead with the projected new airport for which large sums have already been earmarked, deserve high priority.

The Colony's Import and Export figures for 1948 have again surpassed all previous records and are now well over three times the figures for 1938 while the increase over 1947 was 34% for imports and 30% for exports. There is good reason to think that the volume of goods imported and exported during the past year is now up to pre-war levels. An important amount of trade has been carried on with Japan and Korea in the past year (over 5½% of the Colony's imports and 6½% of exports—worth over £14 millions). The trade with these countries is unfortunately not yet on a normal basis, some being subject to Government purchase and control some to private barter.

The accounts of the Colony for the past year have not yet been published but it is hoped that there will be a good surplus of revenue over expenditure. We must expect a further increase in expenditure in 1949 particularly on account of the Hongkong Defence Force, a body the formation of

which is important as a precautionary measure and which will receive general support irrespective of views which individuals may hold as to the details of the organisation—a matter which obviously must be left to the expert advisers of the Government.

Developments in China

Whereas in the past China loomed large in the picture of our operations and our Foreign Staff there surpassed in numbers all other areas, the situation now is such that although we still maintain a considerable number of men at our Offices in Shanghai and elsewhere in China, there has been a definite shift of weight towards South East Asia, and our Office in Singapore has grown in importance. But it is a remarkable fact that, even making allowances for the inflationary situation which makes figures so deceptive the political troubles, exchange controls and other restrictive practices in numerous places where we operate have not impeded trade as much as would be expected. There is an old adage which states "the force of necessity is irresistible".

Last year I spoke in a guarded but pessimistic way about the deterioration of the internal political situation in China and about the feeling of unrest which existed in many parts of the country. It is profoundly depressing that the tune cannot yet be changed. Still, you hear on all sides the statement that ways of compromise will be found. The outlook is indeed unpredictable. That, as applied to the East generally is trite but true. Indeed the outlook throughout the whole world is more uncertain than it has been perhaps at any time within living memory and China's future depends very greatly on world affairs and particularly on the trend of relations between Russia and the Western Powers.

There are some adverse critics of things Chinese who categorically assert that the deplorable developments of the past few years are due, simply and solely, to corruption and misgovernment by the ruling regime. This is far too easy an explanation. Some justification for such an opinion exists but there have been many extenuating circumstances. For reasons not entirely avoidable the Chinese Government has moved too slowly for the needs of the agrarian population in their chronic distress, so the history of past centuries in China seems to be repeating itself in the rise of an agrarian revolt now directed on communist lines. But we live amidst the trees and cannot see the wood. It is desirable for searchers after truth to look deep into the complex character of the Chinese people. Let us leave the judgment to historians of a later date.

As regards the economic state of China, I doubt if the general public would be much enlightened by my undertaking a survey of the economic confusion which reigned in China throughout the year 1948. In terms of Chinese currency or Chinese standards all statistics have an astronomi-

cal appearance and one is at a loss to know how to convert the available figures into intelligible proportions. The trend of development has merely served to show how dangerous it is for the authorities to tamper with natural economic forces in a country engaged in a civil war, with a loosely knit system of Government and with a financial organisation so much at the beck and call of the military that it is forced to abandon attempts to maintain budgetary equilibrium and to turn to inflationary finance to find funds for day to day needs.

It would be foolish to gloss over the present state of affairs. It is true that China has been plagued with internal disturbances as long as one can remember and yet international trade has gone on with a fluctuating but not unprofitable import-export market and with lucrative possibilities for the shrewder and more efficient business men. But the fierce flames now enveloping the political and economic structure of China are potentially more ominous for foreign traders than anything that has occurred since they established themselves on Chinese soil. In my view all those engaged in foreign trade in China must be prepared to face an entirely new situation during the coming years, and to adjust their ideas and their actions to conditions without any guiding precedent. However I do not expect foreign or Chinese merchants experienced in trading on the China coast to pack up in despair.

The clamorous needs of China for imported consumer goods as well as for capital goods from abroad and the over-riding necessity for exchanging exports for imports cannot easily be denied. If conditions are seriously disturbed export goods will be concentrated at convenient internal centres and import goods will naturally be held at suitable external points until the time arrives when they can be moved to the most advantageous and accessible markets. Hongkong has proved to be an entrepot centre of great value in the past as it is at the present time. Even in normal times the value of an efficient well-organised port acting as a distribution centre for foreign countries exists (like London): much more so in abnormal times.

Prominent men on both sides of the conflict in China are determined to proceed as soon as possible with the industrialisation of their country as one potent means of relieving agrarian distress. Better means of transportation, particularly by railways and on the inland water system, will be an essential prerequisite to progress in this direction, and if progress is not to be long-drawn-out, capital goods and investments from overseas will also be essential. We should not therefore neglect our position in China.

China's Indebtedness

It was announced in Parliament not long ago that during the 1939-45 war, the hardpressed British Government had nevertheless made loans and advances to her allies, amounting to nearly £300 millions and in addition

had given gifts of over £400 millions. These loans and advances are in most cases being gradually paid off. China is one of the countries which has been making such repayments. I wonder why the sanctity of a Government loan to China should be regarded as on a different plane from that of a commercial or banking loan? Yet this appears to be the case. At the same time we know that His Majesty's Government recognises the importance of a settlement of the large sums owed to British nationals in many countries on account of commercial or financial operations, or for property which has suffered damage or loss as a result of the war and the Foreign Office has in many cases taken a hand in initiating negotiations for settlement as a part of wider negotiations for the purpose of the expansion of international trade. But no one expects China's foreign debt problem to be faced at this immediate moment.

Moreover I do not propose to question the desirability of the American "Aid to China" about which we have heard so much, but there is one remark I wish to make which will be approved both by holders of Chinese Government Bonds and by our Home Authorities. I feel very strongly that when the time comes for any more loans, credits or foreign aid of any financial nature, whether by Government or by other interests, steps should be taken simultaneously with any such new financial assistance to ensure by properly conducted negotiations that China's earlier creditors receive a fair deal and a satisfactory liquidation of their rightful claims—claims which in many cases were supported by formal guarantees of the Chinese Government and which in the case of the Railway Loans were secured on the total assets and revenues of the lines in question.

I intend that these remarks should cover also the question of the indebtedness of the authorities controlling the former Shanghai International Settlement and other special areas in China both to their former employees and to other creditors. There is surely a first call on the honour of China to settle these obligations, seeing that all the very valuable assets of the Shanghai Municipal Council and the other special areas passed into China's hands over three years ago at the conclusion of hostilities with Japan when the discharge of the official obligations and liabilities of those areas should also have been simultaneously effected.

Trade with Japan

A considerable amount of attention has been focused on the development of trade with Japan during the past year and we have found it necessary to increase our personnel at Tokyo to cope with the complicated problems arising there. After long negotiations the Sterling Area Trade Agreement was published in November. This helped to break the deadlock as to how payments for Japanese exports to large parts of the sterling area were to be effected. British and other foreign firms in Japan during the year

continued to face many physical handicaps. For instance we have been unable to recover the full use of our Yokohama property which is badly required for Staff and office accommodation. As regards business operations the disabilities have lessened during the year, but it looks as if we are nearer the establishment of an international yen rate of exchange although the pros and cons are under constant review. More seriously deadlocked by international disagreement is the question of the conclusion of a Peace Treaty with Japan.

Developments in Malaya

Malaya was under the shadow of a widespread terrorist campaign throughout the greater part of 1948. We owe a tribute to the planters and miners in the Federation who have stayed at their posts in spite of being in continuous danger from treacherous attacks. In Singapore the Police also deserve credit for the firmness and efficiency with which they have maintained law and order. The result has been a remarkably peaceful situation in Singapore during recent months in spite of the disquiet in the Federation where murders and arson have not yet been effectively checked: Until this is accomplished full support is needed from all elements in the civilian community to back up the counter-measures which the authorities are so energetically undertaking. Those responsible for these criminal activities have apparently aimed at bringing about economic chaos, but they have failed in that object as can be seen from the fact that rubber production in 1948 increased about 50,000 tons while the rehabilitation of the tin mines has gone ahead with increasing tempo. In fact tin production rose 70% above that of 1947 to over 45,700 tons. The fall in the price of rubber from about 44 cents early in January to 36 cents in December was a serious matter. Every drop of one cent in the local price reduces spending power in the Federation by over Malayan \$10 millions annually.

If the U.S.S.R. had not been a consistent buyer most of the year (their purchases being 103,000 tons) the position of the industry would be black indeed. Last November Sir Franklin Gimson gave statistics showing that one pound of rubber would only buy one quarter of the rice, flour, sugar and textiles which it could buy in pre-war times, and that although wages had tripled as compared with pre-war the standard of living was lower. This state of affairs has been caused by the compulsion imposed in the United States for the use of a certain proportion of synthetic rubber. One is inevitably reminded of the effect on China of American policy in regard to silver. It has been pointed out that one answer to this is for Malaya to initiate and foster alternative industries and the production of alternative crops. Such action would necessarily take a long time to show any effect but it is sufficiently important to warrant urgent and

vigorous attention by those who are responsible for the future of the country.

Largely due to the "emergency," the financial state of the Federation Government is not a happy one. Funds are needed but it may not be possible to raise loans in the local market, in which case recourse may have to be made to London.

Progress in North Borneo

Steady progress has been made in the past year in the development of the Colony of North Borneo. Exports (particularly rubber) have increased very satisfactorily and it is anticipated that the trade figures will be back to pre-war levels by the end of this year. Production has increased and this in spite of the acute shortage of labour a problem which is still awaiting solution and upon which the future prospects of the Colony largely depends. An important Reconstruction and Development Plan for North Borneo was prepared in the course of 1948 and considerable grants-in-aid are being made to the Colony by the Home Government. There are thus good prospects of further all-round improvement not only in North Borneo but also in Brunei State where the main industry, oil production, is steadily on the increase and is likely to be of immense benefit to the economy of the State. I am quite satisfied with the progress made by our five newly established Offices in these territories.

Developments in India

In India the economic situation has not been particularly cheerful throughout 1948. There has been a steady inflationary rise in prices and in the cost of living. The adverse balance of trade, which for the first eleven months of 1948 was over 664 million rupees, may be worsened in 1949 by the need to import considerable quantities of food grains to make up an estimated deficiency of nearly 6 million tons. On the other hand India can look back with satisfaction at the political progress which has been made during the first 18 months of independence, and it has been heartening to see some of the major differences between India and Pakistan settled one by one. Added to this it is the consensus of opinion that relations between British and Indian merchants and officials are much better, and a recent speech by the Finance Minister in which he intimated that the Indian Government was well disposed towards British commercial interests in India had a salutary effect.

Dominion of Ceylon

On February 4, 1948 Ceylon became the third independent self-governing member in Asia of the British Commonwealth. It is very satisfactory to be able to say that the first year of the new Government has passed off smoothly. Exchange control between Ceylon and other countries of the sterling bloc was introduced in April and has been

well administered. Tea continues to be the bright spot in Ceylon's economy but rising costs of production and high taxation are factors which might prove dangerous in the face of keen competition. The remarks I have already made about rubber prices apply even more forcibly to the situation in Ceylon.

Disorder in Burma

We find a startling contrast in Burma which claimed independence on January 4, 1948. Without delay the nationalisation measures provided for in the Constitution were commenced. The State intends to assume control of all natural resources and to direct all public utility undertakings. However, so far the Government have had little chance of making progress with their imposing programme owing to the widespread insurrection throughout the country since last March. The outlook is unfortunately not very cheerful.

Indochina's Position

In Indochina political troubles throughout 1948 continued to handicap commerce, reconstruction and the general development of the country, yet trade figures have improved over the low levels of 1947 although the adverse trade balance remains unsatisfactory. It is to be hoped that independence within the French Union accorded to Indochina under the terms of the Baie d'Along Treaty will prove instrumental in bringing about a peaceful settlement of the present unrest and a return of the country's pre-war prosperity and affluence.

Developments in Siam

Throughout 1948 there were no serious political disturbances in Siam, and the leader of the present Government, Field Marshal Phibun, had rallied round him some of the best administrators in the country. Unfortunately, within the last few days there have been clashes in Bangkok between the army and the navy. What the result of this unfortunate affair may be it is not yet possible to forecast but provided the differences between the parties concerned are speedily settled there are strong hopes of financial reform and capital development. The country is well placed in regard to sterling balances and it is believed that the Purchasing Mission, which has been in England in recent months and will return via America, is negotiating orders for materials to rehabilitate and expand important public utility undertakings such as the railways, airports and power stations.

Rice shipments in 1948 exceeded expectations but there is still a long way to go before the best pre-war figures are reached. Shipments of tin and rubber have been satisfactory. The import trade has been brisk and considerable business has been done in Japanese piece goods. Recent reports refer to negotiations for a Siam-Japan barter agreement. We trust that this will not restrict merchants in Siam from trading freely with the countries where they can operate most effectively.

Developments in the Philippines

Our Office in Manila continues to do its full share in assisting the trade of the Philippines and our funds are kept amply employed. Foreign banks and merchants have however recently had to face a number of troublesome problems in that country. I will refer later to the unexpected way in which the debtor/creditor question relating to pre-occupation debts has been concluded. Late in the year an Import Control Order, a Central Bank Act and a General Banking Act were put into effect. The first was aimed at conserving U.S. Dollar Exchange, at fostering Philippine industries and assisting native merchants, but it inevitably dislocated a certain amount of business. As an outcome of the Central Bank Act the establishment of a Central Bank of the Philippines took place on January 3 of this year. We offer our felicitations to the Bank on its inauguration and we recognise the great responsibility it has in administering the monetary and banking system of the country. May I also express the hope that in its major policies it will follow in the footsteps of that forerunner of all Central Banks, "The Old Lady of Threadneedle Street." Heavy American disbursements continue to support the economy of the country and one of the most cheering features of the trade situation has been the satisfactory progress made in rehabilitating the sugar industry during the past year as a result of which the 1948/9 crop is expected to produce an exportable surplus of about 500,000 long tons as compared with about 220,000 tons last season.

Progress in Indonesia

Political developments in Indonesia have not been conducive to rapid trade recovery and capital investment has naturally been discouraged. Nevertheless there has been a considerable improvement in trade figures which indicates that it would not take long to restore a fair measure of prosperity if a settlement of the political troubles could be reached and law and order could be restored. We re-opened our Office in Sourabaya last April.

Debtor-Creditor Compromise and Lifting of Moratorium

The past year has at long last seen a considerable advance in legislation to clear the tangled skein of financial problems arising from the Japanese occupation of territories in which the Bank carries on business. The main problem concerned pre-occupation debts which debtors had purported to pay to Japanese liquidation officers either in good currency or in unbacked paper notes with which the Japanese had flooded the occupied territories. In Hongkong the problem was solved on the principle that it was equitable for Government to require the banks to make concessions from what were deemed their legal rights in order to avoid lengthy litigation and to relieve the hardship which would otherwise undoubtedly result to those who had paid their debt in good faith during the occupation.

Such a compromise which was declared by Government to be fair to all parties was achieved by the passing in June last of the Debtor and Creditor (Occupation Period) Ordinance 1948 which gave to debtors of the Bank the benefit of the full validation of all payments made to the Japanese liquidators in Hongkong currency and partial validation of all such payments made in occupation currency. The latter is on a sliding scale based as far as possible on the true value of Japanese military currency at the time of payment. In December the moratorium was lifted and all the restrictions imposed by its proclamation in 1945 were finally removed.

In Singapore and the Federation of Malaya Bills based on similar principles but adapted to special circumstances were, after considerable controversy, passed by the respective Legislatures last December as a preliminary step to the lifting of the moratorium in the coming spring. However it is my opinion that the Bills do not give full justice to those banks which had been placed in liquidation by the Japanese.

The Republic of the Philippines unfortunately has since its independence reverted to principles which had previously been favoured by the local legislature but were condemned and vetoed by President Truman who had declared that he could not sanction measures which in his opinion and in that of his advisers gave validity to the acts of the common enemy. The validation in the Philippines of occupation currency coupled with the continuation of the moratorium in a modified form is calculated to preclude to a very material extent the recovery of money advanced in the Philippines before the war.

The delays and uncertainties which have attended the efforts of the various Governments to clarify the position of debtors and creditors and to undo the fetters that have restricted finance since the war serve to emphasise the part which our Bank has played in the communities which it serves. On the cessation of hostilities the urgent need to set again in motion the wheels of industry and commerce and to finance the rehabilitation of the ravaged countries could not wait. To these tasks the Bank applied its resources unreservedly.

Moreover, in conjunction with the Hongkong Government, it honoured all the notes illegally issued by the Japanese during the war and so removed public doubts and fear of their repudiation and, in order to avoid lengthy litigation and uncertainties in the matter of pre-occupation debts, it acquiesced in concessions to debtors, in so far as they were reasonably fair, so as to relieve them of hardship which should properly have been allayed by compensation from the enemy who caused the losses. In short the Bank has striven to solve the problems which resulted as a legacy of the war by practical measures which, have been of general benefit to all concerned.

EXCHANGE & FINANCIAL MARKETS

CAUSES FOR THE STRENGTH OF STERLING

One of the main changes in the financial condition of the world during 1948 has been the recovery of sterling. When the experiment of making the pound sterling freely convertible into dollars had to be abandoned in August 1947, it looked bad for the London-based currency in which more than half the world's international trade is calculated and paid for. Late in 1947 there was widespread expectation that the pound might have to be devalued. Yet within a year all talk of sterling devaluation has stopped. The currency has regained prestige and inherent strength. That is reflected in a unanimous hardening of the various non-official pound rates. Pound notes could be had in New York at the beginning of 1948 for about US\$2.50. Now they cost 3 to 3.10. In Switzerland pound notes rose last year from 9 to 12 francs. The same sort of recovery has occurred in all other markets where pound notes have a price. The rate for "transferable account" sterling in New York, which was 3.00 to 3.20 a year ago, has risen to over 3.50. The cross-rate between dollar and pound in various markets where exchange dealings are partly free has risen everywhere. The significance of these unofficial rates is not that they indicate the true value attributed to the pound in free dealings. They reflect mainly the desire of people holding sterling to exchange it for some other currency outside the British exchange control. What the rise in the unofficial rate means is that the desire to get out of sterling, which was clearly very strong a year ago, has now abated.

Sterling has, in fact, become not only a currency which bankers and traders and central banks are once again content to hold until they need it; in a number of countries sterling has even become a hard currency, almost as scarce as the dollar. Exporters in Britain have experienced this change during the second half of 1948. In Europe especially (but also in other parts of the world) one country after another has restricted imports from the United Kingdom because its central bank did not have enough sterling to meet import payments. By the middle of 1948 the drying up of sterling resources in Europe threatened trade; it was this movement that led to the idea of the Inter-European Payments Scheme, which has since relieved the pressure.

What has happened to produce this sudden change in the status of the pound sterling was due to three distinct causes. First, confidence in Britain's ability to back its currency with goods was re-established by the tightening up of her domestic financial affairs. In November 1947 and again in April 1948, crushing new taxes came down on consumer spending in Britain; business expenditure for capital purposes was slashed; wages and prices were stabilised partly by control, but mainly by voluntary agreements which were nevertheless effective; exports were driven up in spite of growing interna-

tional competition. Marshall Aid had come in time to take care of the remaining gap; by mid-1948 the drain on the gold and dollar reserves had ceased.

Secondly, a new commercial policy was initiated after the currency crisis of August 1947. Where import surpluses or financial movements had created large funds of surplus sterling in particular countries, bilateral negotiations tended to bring mutual trade nearer to balance. The financial use of sterling accounts for international movement of capital was further restricted. By redistributing trade in a complex network of trade negotiations, the United Kingdom Government succeeded in preventing the rise of any fresh sterling surplus anywhere. In trading with the other countries of the European Recovery Programme region, the United Kingdom had a surplus of £45 million in 1946; in 1947 this was converted into a deficit of £30 million (giving rise to free surplus sterling); in the first half of 1948 there was a British surplus of £29 million in visible trade with the region and a surplus of £11 million in invisible transactions. Thus mopping up of £40 million of sterling resources held by O.E.E.C. countries. As British trade approached nearer to international balance, other countries found quick use for the sterling reserves which only a year before had seemed to them unduly large. Thirdly, a technical reaction to the convertibility crisis of 1947 has given strength to sterling for longer than was expected at the time. The great drain on the world's dollars during 1946 and 1947 had led many countries to wait for the day when the U.K. Government would have to exchange all currently earned sterling into dollars. Britain was still deep in post-war reconversion, and production could not cope with the immense pressure of the world's rebuilding and restocking demands. The intention of the Anglo-American Loan Agreement, under which the U.K. Government was bound to restore automatic convertibility on July 15, 1947, had been to get back to pre-war conditions of international payments. The condition which sterling had to face was highly abnormal. Convertibility led to a world-wide run on sterling for which the reserves could not be sufficient. This apprehension caused holders of sterling all over the world to demand more dollars than they needed as soon as they were able to get them. Working balances in sterling were run down; everyone tried to borrow and owe sterling rather than to have any sterling debt owing to him. As a result, bankers, traders and governments all over the world had to buy back enormous amounts of sterling when the crisis was over. International trade requires ample working funds which had to be restored; debts had to be repaid.

The rebound movement made sterling technically strong as soon as the pound-dollar link had been snapped. But it was expected at the time that this trend would exhaust itself in a few months. It has lasted a year and is still at work. The supply of sterling for financing international

trade is still less than is needed, and it has been kept short by the effective blocking or freezing of the great bulk of wartime sterling balances. These are the three causes of sterling's repaired strength—the internal recovery in Britain; the increasing balance of Britain's foreign trade; and the technical strength of the exchange market for sterling. Together with Marshall Aid they have produced a transformation in 1948.

* * * * *

HONGKONG'S PUBLIC FINANCE

For the first six months of the current fiscal year (ending March 31, 1949) revenue totalled \$84,941,622, expenditure \$74,732,881, resulting in a revenue surplus of \$10,208,741 (a monthly average surplus of \$1,701,456). Figures for the first 5 months of fiscal 1948/49 were published in our issue of Feb. 23, pp. 226/27.

For September 1948 revenue and expenditure amounted to \$15,676,974 and \$12,810,168 respectively, resulting in a revenue surplus for Sept. of \$2,866,811.

At the end of last fiscal year a revenue balance of \$37,063,396 accrued, thus with the current surplus of \$10,208,741, Hongkong Government total general revenue balance as at Sept. 30, 1948 was \$47,272,137.

The current fiscal year has seen every month further accumulations of revenue surpluses. A conservative estimate for the remainder of fiscal 1948/49 may thus be ventured by putting the revenue balance as at March 31, 1949 around \$57 to 60 million. The budget will be outstripped by actual revenue and expenditure figures; both have been underestimated by the Financial Secretary.

The flotation of another instalment of the 3½% Rehabilitation Loan appears to be far off; for the current fiscal year expenditure for works etc. to be financed from Loan proceeds (or advances allocated by Govt prior to floating another \$50 m.) was estimated at \$61,963,255. However during the first half year of fiscal 1948/49 only \$7,843,182 have actually been expended, i.e. 12.66%. It appears, therefore, that Government is not contemplating the full issue of the \$150 m. authorised Loan (i.e. another \$100 m.) and may not proceed with all the proposed rehabilitation works.

Total expenditure under the Loan was as at Sept. 30, 1948 only \$65,113,095 which amount was covered by Loan Funds (first flotation) of \$50 m. while the amount of \$15,113,095 was charged to advances pending the raising of a second instalment of the Loan. With buoyant revenue and a currently increasing surplus Government has ample funds at its disposal to finance further rehabilitation works without raising a loan and paying interest on it.

Hongkong Currency Notes

The total of bank notes in circulation in January 1949 amounted to \$822,083,763, of which notes issued by the Hongkong & Shanghai Bank accounted for 92.49% or \$760,376,790, notes of the Chartered Bank of India Australia & China \$57,822,858 and notes of the Mercantile Bank of India \$3,884,115.

At the end of 1947 and 1948 the note issues amounted to resp. \$675,162,086 and \$783,206,709. The January 1949 bank note circulation advanced over last December by 4.96% and over the average of the second half of 1948 (\$769,154,069) by 6.88%.

To the current figure of bank notes in circulation have to be added about \$20 million in \$1 and subsidiary notes issued by Hongkong Govt.

An increasing portion of Hongkong's currency is taken up by Canton and South China. Due to the confusion in China the circulation and hoarding of foreign currencies has become the rule. During recent weeks the HK\$ has become the generally accepted means of payment in Canton and in major cities of Kwangtung. It is probable that over \$200 million of the local currency are circulating or otherwise hoarded in China.

Hongkong Clearing House

Hongkong Bankers' Clearing-house total for February was \$755,368,765, a decrease against January (the record month) of 8.17%, but an increase over February 1948 and the annual average of 1948 by resp. 21% and 9.64%

Amounts passed through the clearing:—

	1948	1949
January ..	690,869,863	822,578,268
February ..	624,267,531	755,368,765

Based on the 1947 monthly average (\$549,587,014) the index for the monthly average of 1948 was 125.3, for January 1949 was 149.6, and for February 1949 was 137.4.

Official TT Rate

Selling rates of Hongkong & Shanghai Banking Corp. for TT on the following places:—

London	1/2.27/32
Shanghai	Nominal
Singapore	52%
Japan	—
India	82%
New York	24%
Canada	24%
Philippines	50
Batavia	66
Bangkok	365
Saigon	386
Paris	6,560
Zurich	107
Australia	1/6%
New Zealand	1/2.27/32

Hongkong Seizures of Gold

During the year 1948 seizures of gold in Hongkong totalled 7,200.10 taels, viz. 4,275.54 taels during January to Sep-

tember and 692.11 in October, 1,132.95 in November and 1,099.50 taels in December. Previous seizure reports were published in our issue of November 10, page 494. Not included in the above figures are seizures of gold coins and ornamental gold articles (rings, bangles, bracelets etc.). During Jan./Sept. 1948 a total of 188 gold coins were seized.

The unofficial gold price last year (average) was \$327.3% per tael while the official parity is \$138.958 per troy oz. (of \$168.87287 per tael). Accordingly, the value of the seized gold of 7,200.10 taels should be about \$2,357,132, unofficially, and, \$1,215,901, officially. After paying of the usual percentages to informers and Revenue officers, the disposal of the confiscated gold will have to be tackled.

The number of seizures appears to have been recently on the increase; many offenders against the local regulation prohibiting any import or export of gold, unless previous permission has been obtained, have been brought up before the Magistrates and in practically every case gold of varying size was declared confiscated.

Now, when gold trading in China has,

once again, been permitted and larger quantities of gold can be legally carried in and out of China, the strict enforcement of the local prohibition on gold transport should be waived. So far only small offenders have been apprehended with the exception of 2 or 3 larger cases when personal grudges or disunity among a gang led to information being supplied to the authorities.

The very large regular gold traffic has not been disturbed and cannot be checked in an area like Hongkong. An open market in gold is operating daily although official recognition—to the detriment of the fiscus as no stamp duty is being obtained from gold contract notes—has been withheld. It is estimated that last year the movement of gold in bullion in and out of the Colony aggregated almost 3 million taels.

While it is not possible to lift the embargo on gold trade, Hongkong being a part of the sterling area is obliged to adhere to the rules and regulations laid down by the International Monetary Fund which were approved by the British Treasury, it would appear nevertheless to be politic to leave the whole matter in virtual abeyance considering the particular circumstances of Hongkong's geographic location.

Hongkong Exchange Banks Association AGREED MERCHANT FOREIGN EXCHANGE RATES

Maximum Selling.		Minimum Buying.	
Sterling	1/2 15/16 delivery within 2 months with a cut of 1/32 for every further 3 months forward.	1/3 1/32 1/3 1/16 1/3 3/32 1/3 1/8 1/3 5/32	T.T. O.D. 30 d/s 60—90 d/s 120 d/s
(East & South Africa)		1/3 1/8 1/3 3/16 1/32nd	O/D if under L/Credit O/D without L/Credit up every 30 d/s
(West Africa & West Indies)		1/3 5/16 1/3 3/8 1/32nd	O/D if under L/Credit O/D without L/Credit up every 30 d/s
Rupees (India) 82 3/4		83 3/4 84 84 1/8 84 1/4 84 3/8	T.T. O/D 7 & 30 d/s 60 d/s 90 d/s
Rupees (Rangoon) 82 3/4		All buying rates 3/16th higher than India	
Rupees (Aden) 82 3/4		84 3/8 84 1/2 85	O/D if under L/Credit O/D without L/Credit 30 d/s & 60 d/s
Malaya \$ 52 7/8		53 1/2 53 5/8	T.T. & O/D 30 & 60 d/s
U. S. \$ and Canada \$ 24 15/16 delivery within 2 months with a cut of 1/16 for every further 3 months forward.		25 1/4 25 5/16 25 3/8	T.T. O/D—30 d/s 60—90 d/s
U. S. Notes		25 3/8	(Banks to pay Insurance and postage)
Australia £ 1/6 1/2		1/6 7/8 1/6 15/16	T.T. O/D.
New Zealand £		1/3 3/16 1/3 1/4	T.T. O/D

The Financial Reform of Hsu Kan

On February 24, at a press conference in Canton, the Kuomintang Finance Minister, Hsu Kan, announced another of the periodic "financial reforms" which are supposed to get the country, as far as under the control of the Nanking-Canton faction of the Kuomintang, back on the road to prosperity. The "reforms" have as yet not been fully implemented and the promulgation by Nanking's Acting President Li Tsung-jen is still outstanding. Nevertheless, some of the new measures have already been translated into action.

The "financial reform" of Finance Minister Hsu Kan is concerned with (1) exchange and bullion markets, (2) foreign trade, and (3) the national budget.

(1) Exchange & Bullion Markets: it is proposed to permit the free operation of exchange and bullion markets: to mint and circulate silver coins; and to permit the import of gold and silver. The Central Bank of China may again import gold (as was the case prior to February 1947) and sell it to the public. The circulation of foreign currencies is not allowed. The import of gold and silver is freely permitted provided importers pay a duty which is to be specified later.

These "reform" measures only recognise facts; exchange and bullion markets do operate and did not require, at this late moment, any official sanction. Silver dollar coins do circulate and are demanded especially in the rural areas; that the authorities for whom Hsu Kan speaks will mint silver coins is a welcome decision if it means that the printing of "gold" yuan notes will be stopped. Gold is freely imported into China, without any duty but plenty of squeeze being paid; if the authorities at Canton and Nanking propose to import gold themselves, buying it at US\$35 from the US Treasury and selling in the free market at around 50, the public will not mind but the local bullion dealers who obtain their supply from Macao will have to reduce their offers. Macao's business, and all who hang on it, may thus lose out—but it is a far cry from a press conference announcement to the actual official import of gold by the Central Bank of China. Although foreign currencies are not allowed, by Hsu Kan, to circulate, in the very city where he made

this pompous statement foreign currencies do circulate and are, in many cases, demanded by sellers of commodities and services without any alternative.

(2) Foreign Trade. Quotas and embargoes will remain but revision is promised. All export proceeds and inward remittances have to be surrendered to the Central Bank who will issue Foreign Exchange Clearance Certificates in terms of "gold" yuan at the rate of the day. These certificates are transferable.

These measures are nothing new; they are exactly the reiteration of the old "reform" measures of last November (after the infamous "reform" of August 19 collapsed). But there is one new improvement: a Customs yuan is being created, fixed at US\$0.40, which is to be used by importers for duty paying purposes only. To purchase such Customs yuan from the Maritime Customs importers have to offer gold, silver, foreign currencies or a clearance certificate; "gold" yuan are strictly refused. Comment on such a "reform" is superfluous.

(3) The National Budget. Promises and asseverations of good intentions of the Finance Minister! From now on the state budget is to be established in silver dollars, commodities and foreign exchange; salaries to civil servants and remunerations to the army and navy (if any) are to be made in silver coins and in food. No "gold" yuan to be involved; the morale of the troops will thus be strengthened. Taxes are to be collected, to a larger portion, in kind—as has been always the case in China. Provincial and district administrations will be graciously allowed to retain larger percentages of tax collections but at the same time they will have to do without the subsidies of the Finance Ministry of the Nanking-Canton Government.

The reception of the "reform" measures in the vernacular press was everything but flattering to the Finance Minister. Even the staunchest KMT papers could not conceal their disbelief in the seriousness of the proposed measures "designed to lead China back on the road to prosperity"; sarcasm was the general line editors adopted. Nobody bothers about the national budget any more; whatever money the authorities require in Nanking, Canton, Fenghua and in the provincial capitals, they print, and print ever more. All efforts to draw up even a budget for 3 months have been aban-

doned last November. Trade and finance carries on in spite of the collapse of the National Government of China; irrespective of regulations and reform measures business continues, graft and corruption is practised to the hilt and life flows on. Today traders can import and export, as before, provided they pay protection and other fees; and gold and silver are amply available for those who can buy them. Nothing will be "reformed" everything remains just as it was.

Chinese Currency Markets

Hongkong unofficial highest and lowest rates last week in HK\$ per 1,000 yuan:—spot notes 2.77—1.67; TT Shanghai 1.77—1.08; TT Canton 2.27—1.30.

Shanghai highest & lowest free market rates in yuan:—gold per oz 226,000—144,000; US notes 4,400—2,750; TT Hongkong 860—560. Gold crosses 51—54; HK/US\$ crosses 500—540. Central Bank of China rates for US notes: 2,800—3,500 per US\$1. Exchange Clearance Certificate rates per US\$1: 2,700—3,600 yuan.

Canton free market highest & lowest rates: HK notes 635—398 yuan, TT Hongkong 769—440½. Central Bank of China highest TT Hongkong rate 511.875, overseas remittance buying rate, highest, 510 yuan per HK\$1. Official Central Bank cross rate stubbornly remaining at HK\$ 533.33 per US\$1, and for TT London at US\$3 (free market doing business at HK\$515 per US\$, a cross of US\$ 3.10).

Bank of Taiwan official rate for yuan lowered to 10 Taiwan yen per one "gold" yuan; unofficial rates at 8.

Last week all bullion and exchange markets were operating freely in China under the jurisdiction of the government at Canton/Nanking. The Central Bank quoted a rate slightly lower than the free market and intervened in the Clearance Certificate market by selling large lots (derived from state controlled or managed exports); this rate as well as the rate granted to overseas remitters remained below the free market quotations. Importers were buying Clearance Certificates as import controls and embargoes were relaxed.

Inflation continued at increased speed; 500 and 1,000 denomination notes were circulated and 5,000 and 10,000 denomination notes are being printed in China and abroad for early

HONGKONG UNOFFICIAL EXCHANGE RATES

(In H.K. dollars)

	Gold			Per One		Thousand Chinese		Yuan		U.S. Dollar			
	per tael	Silver		Notes		T.T. Shanghai		T.T. Canton		Note	Draft	T.T. New York	
February	High	Low	per tael	High	Low	High	Low	High	Low			High	Low
28	304	302	3.94	2.77	2.55	1.77	1.60	2.27	2.10	5.16	5.17	5.19½	5.18½
March													
1	308	306¼	3.93	1.97	1.70	1.20	1.08	1.42	1.30	5.16	5.19	5.24	5.22
2	306¾	304½	3.93	1.97	1.67	1.20	1.13	1.42	1.32	5.17	5.19	5.21½	5.20
3	305¾	304¼	3.93	2.23	1.92	1.35	1.25	1.75	1.62	5.14	5.18	5.20½	5.19½
4	306¾	304½	3.95	2.75	2.12	1.50	1.35	1.95	1.65	5.13	5.17	5.18½	5.19
5	306	302½	3.95	2.67	2.45	1.72	1.55	2.22	1.95	5.14	5.16	5.19	5.18½

issue. Central Bank sales of gold and Exchange Clearance Certificates were holding off a landslide in the yuan rate but the depreciation was still heavy.

The large cities in China are preparing to go off the yuan currency basis for trading and other business; the utilities in Shanghai have introduced a "utility unit" of a value of US\$0.40 (equalling the Customs yuan equivalent) and shops demand frequently payment in foreign currencies or silver coins. In Canton, steps have been taken to open the Gold & Silver Exchange and to permit banks to accept silver coins as deposits, grant loans in silver coins and charge interest in silver or foreign currencies. The use of HK notes in Canton has become general with wholesale and most retail prices quoted no longer in "gold" yuan. The public is about to chase the scrip of the Central Bank of China out of the province.

Taiwan currency has remained stable in terms of gold and foreign exchange; many Chinese in Shanghai and in Fukien hoard Taiwan money. The Island is under the control of close associates of Chiang Kai-shek who are careful not to destroy the economy of Taiwan which is destined to become the last stronghold of the Kuomintang's CC clique.

Silver coins were minted in Shanghai (using the 1934 dies with the effigy of Sun Yat sen) as payment of salaries by the Nanking authorities is now stipulated to be made in silver dollars. Remaining stocks of bullion in the vaults of the Central Bank in Shanghai are small as the bulk had been removed to Canton and Taiwan.

In many provinces under the nominal jurisdiction of the Nanking/Canton authorities the circulation of "gold" yuan has been reduced as other scrip is used and silver (of various mints) is generally demanded and accepted. In the western provinces, notably Sinkiang, local silver coins are issued. Foreign currencies circulate in many provinces side by side with the "gold" yuan.

An effort has again been made by the Kuomintang right wing to obtain a silver loan from the U.S. From US\$ 200 to 400 million worth of silver may be requested from the U.S. Treasury. A conspiracy to take silver as a "loan" from America, for the enrichment of a small clique, is now on foot. The prospects appear dim in spite of the previous record of Washington's foolhardiness in China. The U.S. are now violently harangued by practically the whole Chinese press and even the anti-Communist newspapers have recently come out with vitriolic denunciations of the U.S. policy in China which is blamed for the civil war and other evils in China. A large portion of American financial grants and relief supplies, it is commonly held by Chinese and foreigners, never went towards the succour of the indigent or rehabilitation of plants but was misappropriated by a small group in the Nanking government. That, still, efforts are being made to get money out of the U.S. shows how low has sunk in

China the estimation of the intelligence of the American government.

Gold Markets

The official recognition of gold trading in China has not greatly aided business as there was since the end of last year very little interference by police and secret service organs in the Shanghai market; other cities, especially in the South, did bullion business with the connivance of the provincial and municipal authorities.

Macao bullion trade may find in the near future competition from the Central Bank of China who are now authorised to buy gold abroad and sell it to all comers. The much maligned official gold sales policy of T. V. Soong when President of the Executive Yuan until middle of February 1947 is re-emerging. The Central Bank could from now on of course buy from the U.S. Treasury at US\$ 35 while overseas bullion brokers cannot supply, at present, below 44; thus it is possible that the Central Bank could put out of business the local bullion trade and cut the official and private revenues of Macao. For the time being imports into China are again permitted but are subject to an import duty.

The local ban on imports and exports of gold is due for a revision in order to cooperate with the Chinese authorities; the embargo has been introduced, it is believed, because of the local official eagerness to assist the Chinese authorities. Nothing positive was achieved but Macao (or a few individuals and the Macao treasury) enjoyed an unprecedented windfall.

Free gold markets are operating all over the world; supply is these days in excess of demand and competition among markets in Europe is growing. Milan is now much in the limelight with Amsterdam, Antwerp, Zurich taking backseats. London is, now as before, another centre of gold trading at prices above the unrealistic parity—that is trading in gold sheets allowed to 22 carats. The South African official sales of a first lot of 12,500 ozs (announced Feb. 7 in Cape Town) is a clear indication of the trend; the demand for an official raising of the gold price from US\$ 35 or 172/3 d. per fine oz. has become insistent. When will the U.S. Treasury and the I.M.F. act?

Highest & lowest prices per tael last week were \$308-302, cross rates of US\$ 48 to 48½. The average price per oz. was \$250 or £15.12.6, against the official price of £8.12.3. The appreciation of gold on the open market here is 81 to 81½% over the official rate.

Trading Reports for the Week:—

Monday, Feb. 28:—Opening & closing rates \$302-303%. On the fictitious forward market the change over favoured buyers at the interest rate of 2 cents per tael per day. Throughout the week the change over rate remained in favour of sellers. The opening rate of 302 was the lowest of the week. Rates improved slowly but surely on continued export demands,

which were all profitable.

Tuesday, March 1:—Opening & closing 303%-305%. Change over 18 cents. Higher change over rate caused sellers to hold back.

Wednesday, Mar. 2:—Opening & closing 305%-305. Change over 5 cents. Market turned quiet with tradings and deliveries reduced.

Thursday, Mar. 3:—Opening & closing 304%-305. Change over 9 cents. Bigger shipments expected to arrive in Macao soon. The steadiness of the U.S. \$ T.T. rates checked a slight drop.

Friday, Mar. 4:—Opening & closing 304½-305%. Change over 9 cents. World free market rates improved, rates began on the upward trend again.

Saturday, Mar. 5:—Opening & closing 306%-308%. Change over 5 cents. Rates advanced to 308%, highest of the week recorded, but reacted by profit taking selling. In the official afternoon market some business transacted at 306%.

Trading Position:—

Total cash bars turned over during the week under review, officially 10,230 taels and unofficially 41,000 taels, totalling 51,230 taels. About 4,600 taels used by local goldsmiths for ornaments, and 46,500 taels exported with very few discovered.

Undeclared imports from Macao during the week estimated at over 50,000 taels.

Detailed exports were:—Canton 18,500 taels, Shanghai 14,500 taels, India 2,000 taels, Singapore 3,500 taels, Bangkok 1,500 taels, Taiwan 2,000 taels, Amoy 1,500 taels, Swatow 1,000 taels, Saigon 1,000 taels and Haiphong 1,000 taels.

US\$ Markets

Gold importers invaded the TT market in full strength and seemed not fully satisfied at the close of the weekly session. As gold inquiry from China is on the increase dealers here feel confident in a rising market and are buying forward whatever is on offer. Exporters find more accommodation for selling their free proceeds in New York for 2 to 4 weeks in advance. There have been last week also larger than usual requirements by importers both for TT and for notes and drafts (the latter mostly for in-payment to local commercial banks in order to secure the opening of L/Cs on New York).

The undertone was firm and there is much optimism displayed by holders of funds in the U.S. in the upward tendency of the market. Ultimately, the rate will be shaped both by the performance of open exchange markets abroad and by the demand for gold in China.

Highest & lowest rates last week, per US\$ 100:—notes 518¼-513; DD 522-515½; TT 524-518½; corresponding to cross rates of 3.053-3.085.

Overseas Chinese remittances have arrived here in somewhat larger amounts, export bills sold in the market remained on the usual level, but sales of Bangkok traders were much reduced.

US notes arrived here in heavy parcels, mostly from Shanghai and Amoy, as a result of gold exports to China which were paid for in US notes. Denominations of 50 and 100 were discounted by 2 to 3% as the supply was daily increasing; the above quoted note rates being only for 10 and 20 denominations.

Silver Markets

Stagnancy and lack of supply featured last week's market. Turnover was small, imports negligible and exports few if any. Highest & lowest rates per tael \$3.94½-3.93; per dollar coin 2.62-2.61½, small coins (20 cts.) 2.07-2.05 (per 5 coins). Chinese mints sold from 3 to 2.95.

Demand in China for "big and small head" dollars is brisk which keeps the local price up and makes exports of such coins impossible. There will be less silver export business here as demand in China is on the rise and silver coins are coming back as the proper legal tender all over China; in North China their use is encouraged and in the rest of China these coins are expelling gradually the Central Bank yuan.

Baht

The developments of last week in Bangkok where some navy elements staged a short-lived row with the opposite number of army men, and the subsequent rounding up (and liquidation by approved methods in this progressive age) of politicians of the Pridi faction, caused the local market to sell baht short. But after a few days of deliberation, seeing that Marshal Bipul is undisputed lord and master, the sentiment changed and the rate firmed up.

There is no need to get upset about the latest skirmish in Bangkok—Nai Pridi's entourage, as far as still in Siam, is lying low and biding their time which, knowing their calibre, will never come again; the military is the only force, physical and moral, which counts in Siam and the population generally have confidence in the colonels. Marshal Bipul Songgram commands the nation's support and this fact alone is adequate proof of the stability of Siam in the troubled seas in the Far East.

Foreign businessmen are setting up more firms in Bangkok, another proof of the confidence one feels in the future of Siam; American merchants have become more conspicuous and so have Europeans from various countries. The only objectionable thing in Bangkok is the climate—and that the Americans, no doubt, will improve.

The local bank note market quoted last week from \$24.20 to 24½ per 100 baht while the official DD rate stands at \$27.397; the discount is around 10½%. In Bangkok open market business was active with TT rates for US\$, £ and HK\$ at respectively 2,140

baht, 6,560 and 414 baht. Crossrates for £ and HK\$ were resp. US\$ 3.06/07 and HK\$517.

Gold sales are small compared to Hongkong but transit business is at times lively. Gold bars (of one baht weight of 15.244 grams) sold around 537 baht, which equals HK\$ 321.60 per tael or 5½% above the local gold market average. (One tael in Bangkok cost last week 1,331.40 baht).

Trade developments during recent weeks—in spite of the new import control which tries to conserve exchange—have not corrected the growing unbalance which, if not checked in time, may lead to a further weakness of the baht on open exchange markets.

Bank Note Markets

Indian rupees have recently arrived here in smaller batches as Pakistan merchants seem to have covered their requirements in the local markets both for gold imports into their country (ex Macao stocks) and merchandise of American origin (by acquiring here TT New York). Subsequently there was some appreciation of the rupee from \$107 to 108½ (a recent low was \$98½). Against the official draft price (121.39) the current price represents a discount of 11.8%.

Burmese rupees are hardly in demand; the price is dropping on account of the internecine warfare in that country; last week's price \$74.

Ceylon rupees are infrequently traded with the rate, mostly nominal, at \$100.

Bank of England notes register a small volume with the price following the New York trend. Last week sales in New York went up to US\$ 3.08; local sales between \$15.10 to 15.25. Travellers, in and out, are the main customers.

Malayan dollars are changing hands in increasing volume although the import and export of currency is prohibited in Singapore and Malaya except for a small sum. The current price moves around \$181¼ to 181½, against the official DD rate of \$190; the discount on Mal\$ is therefore 4¾%.

Indonesian guilders (Nica and Java) do not attract speculators in spite of the low level here; the undertone is better as prospects for trade and production improvement are more favourable. Last week's prices from \$31.30 to 32; against the official DD rate of \$151.51 a discount of 79%.

Piastre rates jumped up last week as trade prospects and a political compromise encourage merchants and speculators to invest in the Indochina currency. Outport orders, esp. from Kunming, boosted the rate further. The advance was 15% for the week with highest & lowest prices at \$10.55-8.86%. Forward sales and fictitious trading was greatly stimulated; in fact, much interest centred on piastre with

many gold dealers diverting some of their attention to the profitable piastre sideline. The official draft rate here is \$25.906; the discount on the open market rate is around 62%.

Philippine pesos had small business at rates which follow US note vagaries; high & low last week \$252-248.

Financial Conditions in the Philippines.

Comparative financial Summary of 13 Manila Banks:

Monthly Averages; in thousands of pesos.

	December, 31, 1948	November, 1948	December, 1947
Loans, Discounts, and Advances	488,219	430,956	349,085

	December, 1948	November, 1948	December, 1947
Total Bank Resources	985,471	994,103	846,737

	December, 1948	November, 1948	December, 1947
Bank Deposits	455,450	458,222	412,050

	December, 1948	November, 1948	December, 1947
Debits to Individual Accounts	106,445	100,422	113,885

	December, 31, 1948	November, 29, 1948	December, 31, 1947
Currency in Circulation (in Pesos):	813,501,310	836,528,887	769,915,824

Money conditions became somewhat tighter towards the end of 1948 and there has been a tendency toward higher interest rates on loans and advances.

The Central Bank assumed the functions of the Treasurer of the Philippines with respect to supplying banks with dollar exchange. It established rates at which it will sell Telegraphic Transfers and On Demand drafts on New York to banks who wish to obtain cover for their sales to merchants. At present the Central Bank rates are: Selling T.T. 201, Selling O/D 200.95.

The Central Bank authorized the following rates within which commercial banks may quote dollar exchange to their clients (in pesos):—

	Selling	Buying
US\$ T.T. over \$500 ..	201.75	200.75
US\$ Demand over		
\$500	201.625	200.75
US\$ T.T. & Demand		
—under \$500 ..	202	200

During December and January banks quoted generally for T.T. 201.75 selling and 200.75 buying.

The amount of capital tied up in inventories and receivables is steadily increasing. There are several factors which have contributed to this condition. Increased buying and selling during the recent holiday season resulted in stocks and accounts which have not yet been fully liquidated. In addition, buying against the effects of import control has tended to raise inventories above normal. The situation does not appear to be alarming

Hongkong Stock & Share Market

Rates continue weak with losses all-round; confidence in the stability of the market appears difficult to regain. Trading remains within limited bounds. In most counters listed on the Exchange no sales take place. Larger business last week was recorded in Banks (over 20% of week's turnover), Unions, Hotels, Lands, Trams, Electrics, Lights, Ropes, Watsons.

The more excitement is shown in London about the future status of Hongkong the more will prices decline. Investors are jittery but no reasons can be given for their nervousness. It is generally admitted that working results of local companies were most gratifying and that the good dividends were appreciated by holders but the outlook for continued profitable working is not what the market would expect. Until political apprehensions are dispelled the trend must remain weak and uncertain; the doordrums will continue.

The Committee of the Stock Exchange referred to the performance of last week's market as follows:—Compared with the previous week there was a further contraction in the volume of business. Union of Cantons have changed hands in quantity and it would seem other heavy investments are in fair demand. The balance of the Market remains almost idle.

Volume of Business: Total Sales reported amounted to 62,875 shares of an approximate value of \$1½ million an increase of about \$¾ million compared with the preceding week.

Price Index: The Felix Ellis averages based on the closing prices of twelve active representative local stocks closed at 134.79, for a net loss of .67 compared with the close of the previous week. Day-by-day his averages were: Feb. 28, 135.17; Mar. 1, 134.69; Mar. 2, 134.64; Mar. 3, 134.79; Mar. 4, Unchanged.

and a general leveling off during the next few months is expected but in the meantime businessmen keep a close check on the credit of customers who are apt to over-extend themselves.

From a management viewpoint the ideal condition for a firm doing business on standard credit terms of, say, 30 days, would be to maintain accounts-receivable totals equal to about the same number of days' billings. This indicates that funds invested in receivables are being turned over regularly. As a matter of practice, however, it seems that there are always enough delinquent accounts on the books to stretch the turnover to something less desirable. Certain government departments and agencies are not always, for example, overly prompt in paying bills within the specified period. Again, it is often good business to grant special concessions in some instances without altering regular credit terms. Although it is not an infallible yardstick, the rate of turnover of receivables is still a fairly accurate and useful measure of the efficiency with which capital is being employed.

Dividends:

The Directors of the HONGKONG ROPE MANUFACTURING CO., LTD. have declared a dividend of \$1 per share and a bonus of \$1 per share, both free of tax. Based on the last sale the yield is 10½% p.a.

Business Done:

H.K. Govt. Loans: H.K. Govt. 4% @ 103.

Banks: H.K. Banks @ 1740, 1735, 1740, (London Reg.) @ £105½; Bank of East Asia @ 137, 138.

Insurance: Canton @ 365; Unions @ 710, 715, 710; China Underwriters @ 5½, 6; H.K. Fires @ 280.

Docks & Godowns: H.K. & K. Wharves Old @ 138, 140; North Point Wharves @ 6.90; H.K. Docks @ 26; S'hai Docks @ 12½, 12¼; Wheellocks @ 31.

Hotels & Lands: H.K. Hotels @ 15.30, 15.20, 15.10, 15.20, 15.10, 15.15; Lands @ 64, 62, 61, 60, 60½, 61; S'hai Lands @ 3.70, 3.60.

Utilities: H.K. Trams @ 19.70, 19½, 19½, 19.80, 20; Peak Trams Old @ 20; China Lights Old @ 14.80, 14.70, 14½, 14.40; 14½, 14.60, 14.80 and New @ 10.20, 10.30; H.K. Electrics @ 37, 36½, 37, 36; Telephones @ 31½.

Industrials: Cements @ 36, 36½, 36¼; H.K. Ropes @ 21¼, 21; Watsons @ 53, 52, 52½, 53.

Stores: China Emporium @ 11¼; Wing On (H.K.) @ 106; China Entertainments @ 42½, 43; Yangtszes @ 4. Cottons: Ewos @ 10.60, 10.40.

COMPANY REPORTS

GREEN ISLAND CEMENT CO., LTD.

The net profit of 1948 is \$3,582,995. To this has to be added the credit balance of the Profit & Loss Appropriation Account at December 31, 1947, of \$198,232 which, after deduction of \$1,450,210 representing a capital bonus of \$3 per share and an interim dividend of \$2 per share paid on August 2, 1948, leaves a balance for appropriation of \$2,331,017 which was dealt with as follows: A final dividend of \$2 per share, free of tax, on 290,042 shares \$580,084; a capital bonus of \$1 per share on 290,042 shares \$290,042; transfer to General Reserve \$840,732; transfer to Reserve for Renewals and Replacements \$150,000; transfer to Insurance Reserve \$33,140; grant to Chinese Superannuation Fund Reserve \$100,000; grant to Staff Provident Fund \$97,854; pay a bonus to Staff \$30,275; carry forward to Account for the year 1949 \$208,888.

An analysis of the Profit & Loss Account reveals that the net profit of \$3,582,995 is made from the sale

of cement \$1,630,554 and from the sale of land \$1,952,441. The profit from the sale of land derives from the disposal during the year of 130,363 square feet of land no longer required for the Company's operations. Sales of cement have been maintained at the level of maximum production throughout the year, demand out-running supply in the earlier months. In the Profit & Loss Account, overdraft interest in 1948 was negligible at \$841 reflecting the satisfactory cash position of the Company compared with the previous year.

Current assets are greater than current liabilities by about \$3,000,000 maintaining the high measure of liquidity shown in the last annual accounts. There is however a liability for the purchase of new machinery and buildings of £100,000 and \$500,000 respectively, or a total of \$2,100,000. Of this amount \$400,000 represents the balance of machinery ordered after the liberation for the essential rehabilitation of the factory. This machinery is now in course of delivery. A second kiln had to be ordered to replace the one removed during the occupation. The present kiln has now been running for more than the normal expectation of its working life and a major breakdown would suspend production for an indefinite time. The cost of this kiln and its ancillary machinery when delivered and assembled upon site (during the latter part of 1950) will be \$1,200,000. In addition, to replace the old block of offices and quarters destroyed by bombing during the occupation, the construction at Hok Un Works has started of new offices and laboratory, over which will be six flats to house the staff. The balance payable to complete this building is estimated at \$500,000.

The dividend together with the capital bonus is small in relation to the total net profit, but is governed by the future commitments of the Company. The final dividend, together with the interim dividend, totalling \$1,160,168 is within the net profit on sales of cement alone of \$1,630,554.

The freehold land at Hok Un was revalued last year at \$5 per square foot. The resulting capital surplus of \$3,410,084, in conjunction with a transfer of \$340,732 from general reserve has been used to write off war losses totalling \$3,750,817. The valuation of \$5 per square foot is below the market price for comparable freehold land.

General reserve is increased by \$500,000 to \$3,750,000 which, with the raw materials reserve of \$500,000 represents nearly 1½ times the issued capital. The position of the Company has been strengthened by placing \$15,000 to Reserve for Renewals and Replacements to meet the increase in replacement costs over original costs and by bringing the Insurance Reserve up to \$100,000.

HONGKONG & SHANGHAI BANKING CORPORATION

The 132nd ordinary yearly meeting of shareholders of the Hongkong & Shanghai Banking Corp. took place on March 5, when the Report of the Board of Directors was adopted. The Balance Sheet as at December 31, 1948 is as follows:—

Liabilities			Assets		
SHARE CAPITAL			CASH AT BANKERS AND IN HAND ...		
Authorised and Issued:			\$ 342,078,120		
160,000 Shares of HK\$125 each, fully paid			HONG KONG GOVERNMENT CERTIFICATES OF INDEBTEDNESS		
\$ 20,000,000			685,620,862		
RESERVE LIABILITY OF MEMBERS			MONEY AT CALL AND SHORT NOTICE		
160,000 Shares at HK\$125 per Share			164,640,000		
\$ 20,000,000			BILLS RECEIVABLE		
RESERVE FUND			83,115,380		
97,010,526			INVESTMENTS		
PROFIT AND LOSS ACCOUNT			British Government Securities		
4,278,631			\$ 387,600,584		
\$ 121,289,157			Dominion, Colonial and other Securities		
HONG KONG CURRENCY NOTE IN CIRCULATION			225,782,889		
Authorised Note Issue against Securities deposited with the Crown Agents for the Colonies			613,383,473		
\$ 42,800,000			INVESTMENTS IN SUBSIDIARY COMPANIES		
Excess Note Issue against Hong Kong Government Certificates of Indebtedness			Trustee and Nominee Companies		
685,442,086			2,134,573		
CURRENT, DEPOSIT AND OTHER ACCOUNTS			ADVANCES TO CUSTOMERS & OTHER ACCOUNTS		
including Provisions for Bad and Doubtful Debts and Contingencies			696,074,256		
\$ 1,807,818,248			BALANCE OF REMITTANCES LESS DRAFTS & OTHER ITEMS IN TRANSIT		
PROPOSED FINAL DIVIDEND			57,317,712		
in respect of year ended 31st December, 1948			BANK PREMISES at cost, less amounts written off:		
7,760,842			Balance at 31st December 1948		
1,815,579,090			\$ 23,745,957		
\$ 2,665,110,333			Less: Amount proposed to be written off		
			3,000,000		
			20,745,957		
			\$ 2,665,110,333		

The Profit & Loss Account for the year ended December 31, 1948 is as follows:—

Profits

By Balance as at 31st December, 1947	\$ 3,421,361
„ Profit for the year, after making transfers to Provisions for Contingencies, out of which accounts provision has been made for Bad and Doubtful Debts and losses arising as a result of war	16,872,849
	\$ 20,294,210

Comparisons with pre-war business

Advances and other accounts in 1937 totalled \$467.3 m. while in 1948 the amount was \$613.3 m., an increase of 31.2% only. On the other hand the currency notes in circulation increased from \$200.2 m. in 1937 to \$728.2 m., last year, an increase of 175.8%. Current, Deposit and

Distribution

To Directors' Fees £5,000 @ 1/2-27/32	\$ 80,842
„ Interim Dividend of £2 per Share, free of Hongkong Corporation Profit Tax, paid 16th August, 1948 £320,000 @ 1/2-27/32	5,173,895
„ Final Dividend of £3 per Share, free of Hongkong Corporation Profit Tax, £480,000 @ 1/2-27/32	\$ 7,760,842
To be written off Bank Premises	3,000,000
„ Balance carried forward to next year	4,278,631
	\$ 20,294,210

other Accounts in 1937 were \$860.1 m. (reaching in 1940 even \$880.9 m.) while last year the total was \$1,807.8 m., an increase of 110%. The net profit in 1937 amounted to \$15.4 m. against \$16.8 m. last year, an increase of only 9.33%. The Dividend of 1948 against pre-war year (1937, 1938) declined by 10% which was due to the 10% Corporation profits tax collected here since 1947.

The outlook for future business of the Company is not favourable. Imported cement is far cheaper than the local produce. Price reduction is absolutely necessary if the Company's business is to be maintained. Lack of confidence in position of the local Cement Company is also expressed in the share quotation; current price around \$36½ (highest & lowest in 1948 \$48 - 30½). With a dividend of \$4 the yield is approx. 11%, the highest of local stocks.

PROMISING OUTLOOK OF LONDON STOCK MARKET

Since the start of 1949 the London Stock Exchange has surprised the chart readers by rising above the top points of the year 1948. Ever since June 1947 when the seven year old bull market ended abruptly with a sharp break in industrial share prices and a more moderate fall in fixed interest securities, the long-term trend of the London market has been firmly regarded as pointing downwards. This major change

of trend had been accepted since the end of the war and surprised no one when it came in mid-1947 after several preliminary declines and rallies as well as the usual slowing down of turnover. The two previous long-term changes which began in 1928 and 1937 had been much more precipitate, but the preceding upward climb had been shorter in each case than the 1940-47 rise. But very few people were prepared to see the market rally after the first severe decline and then remain within narrow limits for as much as a whole year.

According to the accepted chart theories the behaviour of the market in 1948 was perfectly compatible with a major downward trend. Each low point during the year was a little lower than the previous one, and each recovery peak stopped a little short of the one before. But all the chartists were thrown into confusion when in the second week of January the index showed 121.7. By reaching that figure it had broken through the two "upper resistance points" of 1948, suggesting a break with precedent. Market commentators have begun to talk of the last 12 months as a "trendless period." Less-technically inclined observers merely keep their fingers crossed and wonder whether the traditional pattern of the investment cycle may have been shattered by the powerful intervention of the State in finance.

But the conduct of the industrial share market cannot really be understood without reference to the story of Government bonds. These had been driven up in 1945 and 1946 by the post-war rush of inflation and firm control of interest rates. Early in 1947 the control was relaxed and the index of Government stocks fell from 148.7 on the last day of 1946 to 134.5 at the end 1947. In April it had fallen to 130, but in mid-summer it began to climb slowly and continued a steadily accelerating

upward course until the end of November when it went to 133.8. The end of the year is always a period of slack investment in Government bonds so that a slight relapse in December to 133.6 on the last day of the year had no significance. In January the big institutions began to buy again. No new trend has shown itself in the fixed interest market to equal the definite promise of the industrial share trend. But the real London investment story of 1948 was that utterly unexpected and technically illogical six months rise in Government stocks throughout the second half of the year. Week after week both the professional dealers and the banks and insurance companies watched the bonds climb slowly on a trickle of buying without daring to step in. Only in October or so some of the big investors entered the field cautiously and helped to speed up the rally. By October and November it had become a broad upward movement with a substantial volume of investment.

For a time some observers argued that the voluntary dividend limitation accepted by industry had removed all attraction from equities and had forced investors into fixed interest securities. But if any such switch had taken place on a fair scale, industrial ordinaries would have fallen. As a matter of fact,

they rose. They rose at first largely on the back of the bond market. It was the investment of bonds spilling over into ordinary shares which gave the impetus to the latter market; not the other way round. Of course, there were some general justifications. For one thing, there had been a great deal of talk between the convertibility crisis of August 1947 and a probable devaluation of the pound. The discussion was kept alive mainly by repeated American and French suggestions, but in spite of British official denials, shrewd London investors felt unsafe in fixed interest securities so long as there was a danger of devaluation. The rapid improvement in the balance of payments figures and the business like execution of the new disinflationary Budget policy removed all fears of sterling devaluation by mid-summer. That provided a favourable background for the bond rise. A more technical support was given by several large payments to investors on the liquidation of the British-owned Argentine railway companies, as well as on the redemption of a large Government loan. Whether these influences will continue to carry weight well into 1949 remains to be seen, but the stock market outlook is certainly more promising than any London observer would have dared to predict a few months ago.

Dividend Payments and Yields of Hongkong Shares

STOCKS	Price end of February 1948	Dividend for 1947	Price end of February 1949	Dividend for 1948	Paid/ Payable	Current Yield per cent
H. K. BANK	\$ 2055	Int. £2 Net Fin. £3 Net	1780	Int. £2 Net Fin. £3 Net	16.8.48 7.3.49	4.54
BANK OF EAST ASIA	137	Div. \$6 Bonus \$2 Less Tax	136	Div. \$6 Bonus \$2 less tax	12.2.49	5.88
WHARFS	OLD 185 NEW 160	Div. \$12 less tax	138 135	Div. \$12 less tax	Pending	8.7
DOCKS	35	70 cts less tax	26	—	April	—
PROVIDENTS	25½	Div. 75 cts Bon. 65 cts. less tax	19.20	Div. 75 cts Bonus 65 cts Free of tax	Pending	7.29
HOTELS	21	Div. \$1 Cap. Bonus \$2 Free of tax	15.10	Div. \$1 Bonus 50 cts Free of tax	23.3.49	9.93
LANDS	89½	Div. \$3 No tax	64	Div. \$3 Free of tax	28.3.49	4.69
HUMPHREYS	28	Div. \$1 Bonus \$1 Free of tax	13	Div. \$1 Free of tax	8.3.49	7.69
TRAMS	24¼	Div. \$1.10 less tax	19½	Int. 55c less tax Fin. \$1 " "	13.9.48 24.3.49	7.95
STAR FERRYS	140	Div. \$8 less tax	126	Div. \$8 Free of tax	28.2.49	6.35
LIGHTS	OLD 24½ NEW 19½	Int. 35c Fin. \$1 less tax	14.70 10.90	Int. 40c less tax Fin. \$1 " "	25.6.48 3.12.48	9.52
ELECTRICS	OLD 55½ NEW 54½	Int. 14c Fin. in proportion	37	Int. 16c " " Fin. in proportion	25.6.48 3.12.48	6.75
TELEPHONES	51½	Int. \$1.70 less tax Fin. \$1.70 " "	37	Int. 80c less tax Fin. \$1.70 " "	15.7.48 18.3.49	—
CEMENTS	OLD 41¼ NEW 38¼	Div. .85c " " Div. \$1.20	33 36¼	— Int. \$2 Cap. Bon \$3 Fin. \$2 " " \$1	May 7.8.48 4.3.49	— 11.34
ROPES	22¾	Div. \$1 Bonus \$1 Free of tax	21¼	All Free of tax Div. \$1 Bonus \$1 Free of tax	Pending	9.42
DAIRY FARMS	66	Div. \$2.50 Bonus \$1.50 Free of tax	44 (O)	Int. \$1.20 No tax	15.9.48	—
WATSONS	54½	Div. \$4 Bonus \$2 less tax	43 (N)	" .90 " "	15.9.48	—
S'HA1 DOCKS	26¼	Div. 70c	53	Div. \$4 Bon \$3 less tax	25.2.49	13¼
EWOS	17¾	NIL	12¼	Div. 70 cts	12.3.49	5.71
S'HA1 LANDS	6¾	NIL	10.60 3.70	— —	— —	— —

The Population of Hongkong

Total population is estimated at 1.8 million of which about 1% are people of non-Chinese race. Until the census of 1950 accurate figures are not available. The Chinese population is distributed as follows: Victoria and Peak 767,000, villages on Hongkong island 88,000, Kowloon and New Kowloon 547,000, New Territories 250,000, and afloat 132,000. British subjects from the U.K. and the Dominions (excluding Indians) are estimated to total 7,000; Indians about 2,500; and British subjects of Portuguese descent (mostly Eurasians) 3,000.

Aliens numbered, in January 1949, according to the statistics of the Aliens Registration Dept. of the Police 3,610, viz. 2,015 permanent residents, 202 temporary visitors and 1,393 so-called transit/short stay visitors. Approx. 2,250 aliens were of European race out of the total of 3,610. Most numerous among aliens are: Portuguese 980, Americans 869, Filipino 240, Dutch 211, French 186, Italian (practically all being missionaries) 182. There are 4 Chinese registered as they are persons with Chinese citizen papers but are not of Chinese race. Many nationals of South and Central American republics are registered here as aliens although the majority are of Chinese origin. Among nationals of Far Eastern countries were: 2 Japanese, 18 Koreans, (this number is too small however; many Koreans pass here for Chinese and do not register), 42 Annamites (the incorrect and objectionable description of Vietnamese), 4 Indonesians, 37 Siamese (most of them being of pure Chinese race). There are registered furthermore 31 Germans, 33 Soviet citizens, 193 stateless persons, no Turkish (although at least four citizens are actually in Hongkong), 9 Syrians (of some the authorities still cannot get rid of), 1 Formosan (?), 1 Hawaiian (?), no less than 137 citizens of Latin American republics.

Births & Deaths: Births registered in January 1949 were 4,190 Chinese and

79 non-Chinese; the monthly average in 1948 was 3,909.3 Chinese and 46.9 non-Chinese.

Deaths registered in January were 1,238 Chinese, and 11 non-Chinese; the monthly average in 1948 was 1,106.4 Chinese and 13.1 non-Chinese.

The birth rate appears to be increasing for Chinese and non-Chinese while the death rate for non-Chinese is on the decline with the Chinese death rate however on the rise.

Marriages registered in January were 196; monthly average in 1948 was 280, and in 1947, 187.

HONGKONG CONSUMPTION OF ELECTRICITY

(in kilowatt hours)		
	Monthly Average 1948	January, 1949
Lighting	4,346,144	5,171,050
Power	3,775,142	4,946,149
Traction	740,802	803,511
Bulk Supply		
Consumers	3,570,114	4,223,383
Public Lighting ..	93,798	107,618
Total	12,526,000	15,251,711

HONGKONG GAS DISTRIBUTION

(in cubic feet)		
	monthly Average 1948	January 1949
Domestic)	(27,968,200	
Industrial)	(1,317,900	
Public Lighting	21,975,525	2,560,600
Total	23,955,708	31,846,700

KOWLOON-CANTON RAILWAY (BRITISH SECTION) GOODS AND PASSENGER STATISTICS

	Monthly Average 1947	Total Jan.-June 1948	December 1948	Total 1948	Monthly Average 1948
Passengers:	Nos.	Nos.	Nos.	Nos.	Nos.
Local					
Upward	39,281	286,172	75,132	633,638	52,803
Downward	32,139	272,218	64,000	603,088	50,257
Foreign					
Upward	84,841	659,397	93,547	1,285,183	107,098
Downward	73,545	576,267	101,293	1,161,735	96,811
Goods:	kgs.	kgs.	kgs.	kgs.	kgs.
Local					
Upward	86,840	444,905	61,950	861,680	71,807
Downward	281,832	955,440	258,610	1,786,205	148,850
Foreign					
Upward	10,295,666	24,152,620	1,677,290	55,784,300	4,648,692
Downward	351,000	14,223,000	699,880	31,100,060	2,591,672
Revenue:	H.K.\$	H.K.\$	H.K.\$	H.K.\$	H.K.\$
Passengers					
Local	65,982.58	505,681.65	113,740.15	1,072,706.30	89,392.19
Foreign ...	328,458.98	2,475,435.74	378,956.42	4,894,090.10	407,840.84
Goods					
Local	3,592.30	10,580.50	3,421.55	22,895.55	1,907.96
Foreign ..	64,250.97	162,134.65	11,006.49	303,241.97	25,270.16
Miscellaneous					
Receipts	61,339.21	264,329.09	50,672.34	639,769.71	53,314.14

HONGKONG SEIZURES OF DANGEROUS DRUGS

Drug seizures for the period January to September 1948 were published in tabulated form in our issue of last Nov. 10, page 494. These seizures comprised:—prepared opium 407.78 taels; raw opium 6,285.95 taels; opium dross 109.75 taels; diacetyl pills 4,835; heroin pills 27,571.

Following are the figures of seizures of dangerous drugs for the months of October to December 1948:—

	Oct taels	Nov. taels	Dec. taels
Prepared			
Opium	46.95	1,078.10	71.50
Raw Opium	188.00	832.40	427.00
Opium Dross	9.25	11.90	14.55
		pills	
Diacetylmorphine			
Pills	—	10,067	—
		pills	pills
Heroin Pills	3,192	—	4,740
		tube	
Morphine Sulphate ..	1	—	—
		oz.	oz.
Diacetylmorphine Hydrochloride (Heroin) ..	1	—	7½

HONGKONG SLAUGHTERHOUSES

In the public abattoirs of Hongkong the number of animals slaughtered in January was 58,491; cattle 3,451, swine 54,435, sheep and goats 605. Monthly averages for 1948 and 1947 were resp. 49,273 and 41,249.

HONGKONG CEMENT PRODUCTION

In January, the Green Island Cement Ltd. produced 3,645 tons of cement all of which were taken up by local contractors. The monthly average production in 1948 was 4,435 tons, and in 1947, 2,852 tons.

At the previous price of \$156 a ton (\$7.80 per 1 cwt. bag) the January output valued \$568,620. As from March 5, the Company had to reduce its price which is now \$146. Provided that the monthly average production of last year can be maintained, i.e. demand by builders will continue high, the value of cement production as from March should be around \$647,000 per month.

MILK PRODUCTION IN HONGKONG

Milk production by the Colony's dairies amounted to 52,176 gallons in January. Monthly averages for the years 1948 and 1947 were resp. 42,987 and 32,544 gals

Trade Development with North Korea and Northeast Asia

Brisk trade has sprung up between Hongkong and North Korea. Ships flying Panamanian, British, Filipino and Norwegian flags have docked at the North Korean ports of Konam and Chinampo carrying manufactured goods, some of which have gone to North China and Manchuria in direct and indirect barter transactions. Exports from Hongkong to Korea have exceeded those to Japan. Hongkong merchants experienced less red tape in dealing with North Korea authorities than with those in Japan.

Rubber, woollen piece goods, tires, some motorcars and considerable quantities of petroleum jelly, presumably for industrial grease, were exported in exchange for ammonium sulphate and graphite. The arrival in Hongkong of soy bean cake, noodles and groundnut oil, typical products of North China and Manchuria, proves that China is involved in this expanding volume of trade. A few vessels from Hongkong have put into Chefoo thus having commenced direct Hongkong-North China trade. Chinese merchants of Hongkong started business with North Korea last year by chartering a vessel under Panamanian registry, loading it with goods and dispatching it to Konam. The ship returned with ammonium sulphate and graphite.

In an interview with the New York Times, the Superintendent of Imports & Exports (Mr. E. Himsforth) mentioned that there are good prospects for trade in Northeast Asia, all the way from Japan to Manchuria, provided it is conducted on a business basis and politics are kept out of it. Northeast Asia has the raw materials the world wants, especially food. It needs manufactured articles that can be supplied only by industrial countries — Europe and the United States.

British and Chinese business men in Hongkong like many business men in Shanghai, including Americans, are eager to carry on trade with the Communists. Thus far, however, they are biding their time. In both Shanghai and Hongkong American traders have manifested concern that the British would get the jump on them. Meanwhile British business men appear to be concerned lest cold war politics interfere with trade in Northeast Asia.

Hongkong having changed from being the entrepot for China to being the entrepot for Asia is now trying to develop business with Northeast Asia.

HONGKONG'S TRADE WITH BURMA

In 1948 Hongkong's trade with Burma amounted to \$34,241,261 of imports and \$12,092,635 of exports. Imports were mainly rice (\$32,771,330) and some vegetables (\$297,062) and animal feeding stuff (\$399,951). Exports from Hongkong were mostly cotton yarn (\$4,645,747), dyestuffs for the cotton industry of Burma (\$1,040,770), clothing articles (\$730,659), manufactured articles (mostly of Hongkong factories) (\$913,060), manufactured base metal goods (\$1,595,883), pottery (\$648,315), paper (\$81,460).

The pattern of trade with Burma continued in January 1949 when imports amounted to a value of \$1,861,365, all of which rice; and exports \$2,005,366, mostly yarn for \$1,669,128 and base metal goods \$201,244.

Under current disturbed conditions in Burma development of trade with this country is extremely difficult. Demand in Burma for Hongkong manufactured piece goods and metal goods is high. Being a member of the sterling area business with Burma is facilitated for local merchants. The supply of cotton yarn, mostly of Shanghai origin, has been a most profitable business for local firms who carry on in spite of the disorganised communications in Burma.

Hongkong Exports to the U.S.

Declared exports of hides and skins to the United States during the period January to November 1948, in pounds (with value in United States dollars in parentheses) were as follows: Buffalo hides, 370,133 (\$113,788); goat-skins, 274,361 (\$227,927); deerskins, 184,640 (\$99,083); reptile skins, 650 (\$1,482); and leatherware, 6,575 (\$12,894).

Declared exports of gallnuts amounted to 705,600 pounds valued at \$77,640.

Declared exports of feathers to the United States during the period January-November 1948, amounted to 3,423,207 pounds valued at US\$1,596,627.

Undressed fur exports in pounds (with value in United States dollars in parentheses) were as follows: Rabbit, 42,504 (\$53,491); kolinsky, 23,551 (\$381,686); and weasel, 2,143 (\$46,257).

Barter Trade with North China

(By a Correspondent)

The first large scale barter transaction between Chinese Communist held North China and Nationalist South China has just been arranged and the initial shipments are now under way. The steamer, Greater Shanghai, sailing under the flag of the Sino-British Kailan Mining Syndicate has left Shanghai for the Communist held port of Chinwangtao and returned safely. The parties concerned have agreed to exchange 300,000 bags of flour for 100,000 tons of coal, the latter of which is badly needed by Shanghai. It must be admitted that this strange anomaly of two warring factions exchanging goods in the middle of hostilities is an occurrence which will sound absurd to those Western countries who were involved in the last World War. Nevertheless, it has happened in China and business people are wondering whether there will be possibilities of early business with North China on a barter basis. In the first place, of course, this form of trade will of necessity be limited to a very small range of commodities. Due to the lack of uniformity and standard value between similar commodities, it is obviously extremely difficult for the parties concerned to reach an agreement on the barter-exchange value. This is just one of the drawbacks of this form of trading but let it be assumed that the items which can be bartered on a large scale commercial basis are strictly limited. Should this first barter agreement be successful, there are hopes of further extensions of this form of trade to Hongkong.

One fact which has already come to many people's notice is that the various utterances of the officials of the People's Government of North China have intimated that they desire to trade, even if the long term prospects have not been mentioned. They have broadcast the news and guarantee that foreign owned or run enterprises will not be harmed or molested. In the last few months, trade has been surreptitiously going on with North Korea who have been buying through agents in Hongkong various commodities for the factories of North Korea. Admittedly this is not North China but it is a fair assumption to assume that some of these goods have been finding their way to North China. These agents have come into the market as large scale buyers from time to time and naturally enough the market has risen against them once their intentions are known. Perhaps the policy of official barter may have been decided on against buying through agents.

North China is an area which is in great need of many of the manufactured articles produced by the Western World and although the Communists have been very successful recently in the military field, they know that for the bigger battle of administration and rehabilitation of their large territory, they

will need big supplies of goods manufactured by the outside world. The battle of administration is going to be a far stiffer obstacle than the battle in the field, and if Communist China is to be successful and acceptable to the people of China, then it must prosper.

In view of this fact, one is led to believe that business will grow on a barter basis and it appears that the authorities of the Kailan Mining Syndicate are anxious to export coal on this basis. Hongkong is naturally enough neutral as far as the politics of China are concerned and from the business point of view it is up to the firms concerned to make the best business deals that are possible. One must not lose sight of the fact that should North China be intent on reaching a system similar to that of the Soviet Union, then 'the end justified the means' will be their philosophy, and it is up to traders of the outside world to make the most of what business offers. It looks as if barter business will continue as long as there is a lack of stable currency in any case, but let there not be any false sense of security due to the apparent show of compromise with private enterprise.

Communications between North China and other countries

As from March 1, shipping between North China ports and Shanghai as well as other Chinese and foreign ports has been officially sanctioned by the North China People's Govt. Mail, telegram and remittance questions remain to be decided but irregular postal communications have been resumed since middle of February.

The Shipping Administration Bureau, Tientsin, is the authority nominated by the North China People's Govt. for control of sea communications. Its functions are the same as the port authorities in other countries. Passenger examination is still carried out by military organs in conjunction with the police.

Reports from Peiping and Tientsin

The Government has established in Peiping its first 5 shops for retail trade; they are managed by the Govt. Trading Bureau. Daily necessities, like grain, fats, salt, coal etc. are sold usually 5-10% below the market prices. All residents can buy freely. The Peiping Supply & Marketing Cooperative has also recently opened several offices in the city in order to organise for the people in factories and offices regular and cheap supply of commodities, at the same time organising also the exchange of commodities between Peiping and the countryside.

Private shons in Tientsin now total 22,600, i.e. over 90% of the shops previously doing business. The Military Control Committee, Tientsin, has accumulated for the population in grain stocks most of which came from Manchuria. They city is well stocked.

Trade with North China

Regulations for imports and exports by the authorities in North China have recently been revised in order to encourage increased foreign trade. The North China People's Govt. has authorised three organisations with supervising the movement of foreign trade, i.e. imports and exports between the liberated areas of North China and the territories under the control of the Nanking Govt. as well as foreign countries.

These organisations are: (1) Import-Export Control Offices, (2) Import-Export Trading Concerns, (3) Maritime Customs. The Import-Export Control Offices are besides issuing permits to merchants also in charge of the physical control of trade on the land frontiers; the Import-Export Trading Concerns are government organisations which are authorised to conduct barter; the Maritime Customs operate in North China in a similar way as in the rest of China but the tariff for imports and exports is different.

The principles for trade control are to encourage exports of surplus native produce; such goods are exempt from export duty or subject to a light tax. Exports of essential commodities, particularly those necessary for the prosecution of war operations, are prohibited. Import of essential commodities (war materials of any description, capital goods, communication materials, medical and cultural supplies etc.) is taxfree or subject to a light tax. Ordinary imported consumer goods are taxed at a graduated scale according to the usefulness of such goods for the population; foreign goods which may impede the development of native industrial production are subject to a heavier but not a protective duty. Luxury goods and harmful articles (like narcotics) are prohibited from importation.

Import commodities are, accordingly, classified into: duty-free, taxed and specially taxed categories. All imports are subject to examination, registration and clearance against payment of duties by the Customs (when brought in via sea routes) or the land stations of the Import-Export Control Offices. Specially taxed import goods are: tea, dyestuffs, matches, gasoline and kerosene, sugar, used rubber tyres, rubber shoes, paper and cigarette paper, enamel ware and vacuum flasks, tooth powder and paste, saccharine. These above-mentioned goods can only be brought into North China if importers

have previously exported (or bought from exporters the relevant documents) such China produce which is encouraged for export by the authorities. The value of specially taxed imports should correspond to the value of encouraged or promoted native produce exports.

Export commodities fall into three groups: (1) Barter goods, (2) government controlled goods, and (3) ordinary goods. All exports are subject to examination, registration and clearance against payment of duties (except if duty-free) by the Customs and (at land borders) by the Import-Export Control Offices.

(1) Barter goods for export are at present:—peanuts and peanut oil, rice, cotton cloth, bristles, bullion. They can only be bartered against essential commodities from Nanking controlled China or foreign countries. The list of essential commodities is often revised by the Import-Export Control Offices, the authority in charge of barter trade. Under the Import-Export Control operates, as the official trading organisation, the Import-Export Trading Concerns who effect the exchange of imported against exported goods.

(2) Government controlled goods are at present as follow:—foodstuffs and fruit, yellow tobacco, silk and bean oil. These goods will only be sold against the import of essential commodities of the duty-free category (war materials, communications equipment etc.). Privileged exporters of controlled goods are factories, cooperatives, industrial and agricultural enterprises who may export first and then buy duty-free essential commodities outside the jurisdiction of the North China People's Govt. The procedure for these controlled exports is as follows:—Prospective exporters have to submit application to the Import-Export Control Office in their respective town after approval of which a "Controlled Goods Export Permit" will be issued. After the exchanged duty-free essential imports have arrived and the import permit has been deposited with the I-E Control Office the responsibility of the exporter ends.

(3) Ordinary export goods are in two groups, taxed and duty-free, according to the tariff in force and amended from time to time. As production of mineral and agricultural produce and manufactured goods eases, the number of duty-free exports increases. Duties are levied, in principle, only on such exports which are to some extent in strong demand in the domestic markets.

Prohibited exports are those which are in short supply in North China.

Direction of trade is not controlled.

Tientsin Imports & Exports

Available exports from Tientsin include the following articles:—

Chinese ink, dyes, medicines, Cosmetics, Camphor, Chemicals, Paper manufactures, Paper, Paint, Straw for making mats, Scents.—Camel hair, Goat,

and Horse skins, Jute, Sheep skins, Silk, Wool;—vegetables, Baking powder, Bamboo, Bean cakes, Pig beans, Black beans, Green beans, Fresh fruits, Mushrooms, Red beans, Soya beans, Soya bean oil, Tin fruits, Vegetable oil, White beans.

Required imports are the following:—

All kinds of steel files, any electrical apparatus over 500 K.W., any ball bearing, Bicycles and parts, Camphor for industrial use, Caustic soda, Cement, Construction materials, Copper, Cotton mill machines, Drills, Electric iron, Generators and spare parts, Hydro acid, Indigo, Lime stone, Locomotives, Motors and spare parts, Machinery for farming and spare parts, Machine beltings, Manufacture of matches, Machines for making screws, Pipes, Paper making machines, Printing ink, Railway sleepers (round or square), Steel sheets, Steel bars, Stainless pipes, Saw mills, Sewing machines, Steam boats and spare parts, Switches, Tram cars, parts and accessories, Tin plate, 1,000 K.W. transformers and spare parts; Artificial silk, Blankets, Silk, Silk worms.

Chinese Imports of Diesel & Fuel Oil

During January, 1949, the import, through Shanghai, of Diesel and fuel oil was as follows:

	metric tons
Light Diesel Oil	1,739.4
Medium Diesel Oil	3,474.3
Fuel Oil	35,041.0
694,332 gallons (American) of aviation gasoline were imported through Shanghai.	

867,523 litres (one litre equals to .2642 gallon) of kerosene were imported through Canton and Shanghai during the same period with the former port taking 861,742 litres, or over 150 times more than Shanghai.

There were no imports of heavy Diesel oil or automobile gasoline in January.

Shanghai Exports

For the week ending February 19:

Bristles	US\$ 243,238
Woodoil	96,615
Furs & Skins	148,884
Other Vegetable Oils	5,335
Tea	154,282
Straw Hats	54,781
Hog Casings	6,666
Feathers	74,521
Metals & Metallic Products	60,369
Woolen & Silk Yarns	27,343
Fresh & Preserved Eggs	65,591
Cotton Manufactures	66,256
Wool & Woolen Products	20,691
Silk Manufactures	61,514
Vegetable & Vegetable Products	45,073
Sundries	168,493

Private exports total ..	US\$1,299,660
Cotton Piece Goods	US\$ 609,147
Cotton Yarn	819,010

Government exports total US\$1,428,157

Grand Total

US\$2,727,818

There were no exports of frozen eggs, mineral products and sugar.

Review of Produce Markets

Metals & Ores

Shipment of metals and ores from the interior of China has been somewhat interrupted lately. As the price by the National Resources Commission for Antimony, Tin and Wolfram Ore was far below the cost of production in the Kwangsi Mines, Kwangsi Provincial Authorities strongly criticised the policy adopted by NRC. Unless the price will be adjusted to reasonable levels, export will be temporarily suspended until situation improves. Hereafter metals and ores passing through Hongkong for re-export will be much reduced.

The trouble with the National Resources Commission, which operate wolfram and antimony as a state monopoly, remains that they never will pay a fair price to the miners and dealers; as is the case with the other Chinese state monopolies, the producer and merchant are soaked without mercy. All the sanctimonious talk about export promotion by these monopolies comes down to crass exploitation of the working people and the traders. In the end effect, this policy of exploitation has boomeranged as output declined while smuggling had to flourish. It is idle to expect any change for the better; it is also too late as the Nanking government monopolies will not keep on doing business for more than a year.

Tin Ingots:—At present the price of Tin Ingots in the local market has slightly advanced. 97% Pat-po and Ho-yuen Tin is now quoted at HK\$545 and 50% Soldering Tin at \$325 per picul, ex-godown. Suspension of export from the interior of Kwangsi did not affect the local market to a particular extent as there continued weak markets abroad. Although inquiries have been sent from U.S.A., the quantity required is small and price for c.i.f. New York is only US\$0.85 per lb. which does not attract local exporters. That restriction on export of tin may be lifted by the Malayan Authorities, however, was not confirmed.

Antimony:—The majority of Antimony exports was for Germany but demand from local factories was also brisk. At one time the price was jacked up to \$230 per picul ex-godown but later dropped to \$200 per picul. Lack of demand from abroad coupled with arrivals of heavy stock of Antimony Oxide from Shanghai accounted for the downward trend of the market. Antimony Oxide is particularly suitable for local factories and the price is much lower. Gradual adoption of Antimony Oxide in lieu of regulus has affected the market considerably.

Wolfram Ore:—Local stock of wolfram ore is running low and fresh arrival from the interior of China has not been encouraged. Price advanced to HK\$360 per picul, ex-godown. Eowever further advance in the local market is not likely. In the first place,

heavy seizures of smuggled cargo by the authorities or pirates in the interior were reported and those who fortunately landed the ore in the Colony found difficulties to ship it out due to lack of certificates of origin. Old certificates in the hands of dealers are gradually diminishing. Furthermore, the highest price reached during the past was around HK\$400 per picul and the present price is ruling almost at its peak. U.S.A. is still the main importer of Wolfram.

Copper Ingots:—Kwangsi Copper Ingot is now quoted at HK\$115 per picul ex-godown. At it is prohibited from exports by the Kwangsi authorities, new arrival in the near future is unlikely. Shortage of supply in the local market and increasing demand from New York market accounted for the recent advance. It is reported that current quotation for Copper Ingot in New York is US\$0.20 per lb. and exporters enjoyed a prosperous trade in this metal. Total export of copper ingots from Hongkong to U.S.A. during the past twelve months was around one thousand long tons.

Lead:—Export of Lead since January, 1949 has dropped almost fifty percent and market is still weak. Price of Australian and Canadian origin is ruling at HK\$130 per picul while that of Canton origin is \$125 per picul ex-godown—which is a \$10 drop per picul as compared with the February quotation.

Bristles

During the past fortnight, arrival of over one thousand cases of Chungking Bristles in the Colony was reported. Current quotation for No. 27 Chungking Black Bristles is HK\$2,100 per picul. Although a large quantity purchase by American importers has not materialized, constant shipments of 10-20 cases at a time in smaller batches are still carried on. Price in New York for No. 27 Chungking Black Bristles has now dropped to US\$3.50—3.70 per lb. as compared with US\$4.30 during the middle of February. Quotation for No. 55 Tientsin Bristles was also reduced to US\$8.10 per lb. Due to urgent demand of bristles from consumers in U.S.A. a fortnight ago, dealers in the interior of China have rushed shipments to Canton to catch the rising market. However, upon arrival of cargo at Canton, market in New York already slumped. The stock of Chungking Bristles alone held up in Canton is over three thousand cases. The lull in the New York market is entirely due to the general commodity depression there.

When barter with North China will start on a more comprehensive scale, local exporters will find ample cargo of bristles on offer. Not only is North China a heavy producer of the best quality bristles but old stocks, in towns and in the country, are now waiting for shipment. The North China authorities have also collected large cargoes

which they are anxious to barter against machinery and essential consumer goods. A glut in the bristles market may thus be anticipated in the not too far a future.

Chinese Tea

Market of Chinese Tea continued its downward trend. Current quotation of Chinese Black Tea in the New York market has dropped to US\$0.24 per lb. as compared with US\$0.28 a month ago. During the past mostly Green Tea was exported to North Africa but the quantity shipped out recently has been greatly reduced. London market is dull. The slump of Chinese Tea on foreign markets was due to the dumping of Ceylon and Japanese products. Recently the largest order received by

Hongkong exporters was 150 tons from France. Repeat orders have been sent again but the price offered is rather low. Due to dwindling of stock in the local market, shipment of 150 tons for France could not be effected until supplies arrive from Formosa. It is reported that the first shipment will be sent out before the end of March and the balance to be delivered during April. Despite this order which seems to stimulate the local market, the price is still on the downward move. Current quotation for Formosa B.O.P. Black Tea is \$95 per picul. Over ten thousand cases of New Crop Tea have been shipped from Formosa to Swatow which is intended for the Siam market. In the event that reaction in Siam is unfavourable, it is likely the same will be shipped to the Colony.

obtain from the Central Bank the approximate value of their commodities shipped abroad. How long this liberal system will last remains to be seen; for the moment tung oil like other produce exports is stimulated and offerings abroad are on the increase. The price trend for all China produce, primarily vegetable oils, should therefore show weakness of which overseas merchants will be well advised to take advantage.

Shanghai Yarn & Piece Goods

Heavy shipments of Shanghai spun yarn have been going, via Hongkong, to India, Pakistan and Burma. Both private and Chinese Government owned mills are turning out yarn and cloth for export, neglecting the domestic market for the benefit of exchange earnings. The larger portion of raw cotton has come, as gracious gifts though not appreciated, from E.C.A. supplies. During the few months of E.C.A.'s operation in China cotton supplies to a value of US\$69.8 million as at the beginning of this year (36% of total ECA donations to China) were delivered to the Chinese Government who then sold them to the state and private mills in Shanghai and a few other cities, the proceeds (in money and/or kind) being retained by the Govt. for the purpose of bolstering their revenue. "Sale" were usually effected on the basis of cotton spinning mills promising the delivery of a certain quantity of yarn and/or cloth to the Chinese Govt. As far as the state-owned mills are concerned, the stipulation of eventual yarn and cloth delivery in full or partial squaring of the debt incurred from raw cotton deliveries was meaningless; the Nanking authorities obtained free grants of ECA cotton and manufactured in their mills (taken over from the Japanese after surrender in 1945) yarn and cloth which was either sold to domestic consumers, turned over to the Chinese army and the hordes of civil servants, or shipped abroad, usually to sterling area countries. In the case of private cotton mills in Shanghai the payment in kind for raw cotton received was not always adhered to; obligations to deliver stipulated quantities of yarn were delayed and payment in "gold" yuan scrip were offered and, if connections between the private mills and certain officials in charge of raw cotton distribution were well founded, such payment was accepted.

Hongkong weaving and knitting mills have found increasing competition from Shanghai mills; this sort of competition, made possible only by ECA gratis supplies, can be termed unfair and it is unfair. On the other hand, without the generosity of the U.S. the cotton export industries of Shanghai would have been unable to carry on. Thus, the real danger to Hongkong's export sales of locally

Hongkong Commodity Markets

Ramie

Business in ramie (China grass) has been brisk during recent weeks. A local engineer and merchant is experimenting with conspicuous success with the processing of ramie so as to develop this business in Hongkong. He has produced, in his laboratory, shiny, glossy, silk-like ramie after bleaching and degumming the native produce which is available in big quantities in South China and many other Chinese provinces. In South China there are 3 crops of ramie annually. It will be a most profitable enterprise to install here a carding and combing plant for preparing ramie for eventual shipment to the spinning mills (the best of which are in the U.K. where also the linen industry leads the rest of the world).

Exports of ramie in its present raw state (yellow-green or, after bleaching in the sun, whitish) go largely to Japan. There is sufficient interest in Japan to build up a prosperous export trade if it were not for the low price offered in Tokyo. Recent shipments from here to Japan were either resulting in no profit or actually were effected under cost price; that no loss was sustained by exporters was due only to the subsequent exchange transactions: exporters of any commodity to Japan are permitted, by the Department of Supplies, Trade and Industry, to dispose freely of 40% of their proceeds (which are deposited in their name in the Hongkong-Japan two-way trading account). There is always a good demand for "Tokyo account US\$" and the current premium stands at 15% to 17% (some exporters are so lucky as to obtain from prospective importers of Japanese goods a premium of 20%). Consequently, local exporters of ramie although shipping at no profit or even a slight loss are still able to make a small

profit by selling 40% of their proceeds in Tokyo at the current premium (i.e. instead of approx. HK\$4 per US\$1 in Tokyo two-way account, exporters obtain approx. HK\$4.60 to 4.70). The average cif Japan ports price was recently US\$34 per picul (equivalent to HK\$136 at the official rate); the market price here, f.o.b., is about HK\$165.

Tung (China wood) oil

In New York dealers were little interested in tung oil, nominal prices hovering around 21 US cents per lb. Production in the US of domestic wood oil has notably expanded and the outlook for further increase for the next season appeared favourable. American tung oil planters and mills are anxious to remain in the business and their campaign against the continued sale of China wood oil—which is always being charged as amounting to dumping by the Central Trust of China and C.V.O.C.—has found much support among the oil traders in New York. At the moment tung oil here is offered at \$118, standard quality. Arrivals of considerable lots in drums both here and in Macao has a depressing effect. Under present market conditions abroad a further weakening of the price is probable. It is now easy to ship tung oil out of China; the procedure of export bills' surrender to the Central Bank of China has been relaxed to such an extent that shippers in Canton obtain the necessary chop from the Bank without surrendering more than 20% to 30% of their HK\$ proceeds. From the interior the supply is running smoothly and stocks in such places as Wuchow have been accumulating. In Shanghai export proceeds surrender is now handled in a manner which encourages exports; for the first time in over 3 years shippers in Shanghai are able to

manufactured knitted and woven goods does not come, as is often erroneously talked about, from the revived Japanese mills but rather from the Shanghai mills—so long as the ECA cotton supply line is not interrupted (which appears now to be in the offing).

Local exporters have been making good profits on sales of Shanghai yarn and piece goods to Indian, Middle and Near Eastern as well as British African customers, since such goods were amply and at rather low prices on offer. In the past Shanghai shippers had to surrender to the Central Bank of China their bills, receiving in return so-called Exchange Clearance Certificates which, however, quoted on the free market usually 20% to 45% below the actual (black market) value of foreign exchange. Private mills, therefore, had to use other than officially permitted channels and the most frequented route was via Canton to Hongkong. Once the cargo arrived in Canton (either by direct steamer from Shanghai or, in some cases, via Hankow) the shipment to Hongkong was a simple proposition. The authorities in Kwangtung favour this sort of trade which contributed, if not to the coffers of the Chinese Customs or the Nanking treasury, to the prosperity of Canton merchants and official interest in Kwangtung. At present, exports from Shanghai are again through the Customs — at least the majority of yarn and piece goods shipments. Export proceeds have to be surrendered, as before, but the rate granted by the Central Bank is now more or less the same as paid on the virtually open exchange market. This situation is not going to last and the difference between the open market rate and the so-called Clearance Certificate rate should show a significant gap, large enough to discourage exports through officially prescribed routes.

A recent development is the direct shipment of smaller lots of such yarn and piece goods from Shanghai which previously were at first sent down to Hongkong for eventual re-export.

Piece Goods

The market opened dull with sellers holding back at the low prices in force. Grey sheetings fell, but white shirtings remained steady. Poplin rose, as a result of reduced stocks. A lack of enquiries from South Africa (due partly to restricted imports), Singapore, Siam, etc., caused prices to fall heavily towards the end of the week, except for drills, which showed a slight improvement. Fortunately, from the sellers point of view, no supplies came from Canton, which prevented too great a fall. To offset the general dullness, it was reported that an enquiry had been received from French Indo-China for approximately 70,000 yards of Khaki at

HK\$100,000. Grey sheetings, Bellman brand, fell to \$43.20 per piece, Dragon Head to \$46. Black cloth fell in the absence of demand from South Africa, Yu Tai selling at \$40.30, Double Golden tael at \$45.20. White colth, Camellia mark, sold at \$42.20 and Tsin Leung Yuk at \$44.70. Drills, Five Stars (12 lbs.) improved to \$40.20.

Woolen Piece Goods were active, with orders being placed for Autumn delivery.

Artificial Silk was steady in consequence of reduced stocks. Japanese No. 120 sold at \$39.50 to \$40 per cone.

Cotton Yarn. Those unfamiliar with the Shanghai market will be interested to know that yarn bearing such marks as Blue Phoenix, Double Fish, etc., was originally made by Japanese mills in Shanghai. After the end of the war, these mills were taken over by the Chinese Government and run under the title China Textiles Inc. The market here was very active with demands from local mills handling orders received from South Africa, Siam and India. Prices ruling were consequently higher. Large quantities of Shanghai yarn were received from Canton. Yarn allocation was made to local mills at \$1250 for 20's. Hongkong made yarn was sold at \$1280 and \$1300, which was higher than the Shanghai product. Water Moon 20's rose to \$1285 per bale, Golden Star 10's fetched \$1040, Blue Phoenix 20's \$1380, Double Fish 10's \$985, Blue Phoenix 42's \$2120. Exports of Chinese and locally made yarn were dull; Blue Phoenix 32's to South Africa \$1750.

Raw Cotton.

Restrictions in India imposed upon the export of raw cotton have affected the market; prices of Indian cotton consequently rose as a result of demands from local mills, Pakistan L.S.S. selling for \$1.83 per lb. Burma cotton was offered at \$1.50 and cotton from Siam at \$1.45.

Metals.

The metal market was full throughout the week. The second allocation of tinplates through the Hongkong Department of Supplies, Trade & Industry arrived and was distributed to local factories, which brought down the price, U.S. 20 x 28" 200 lbs. being offered at \$125 per case; British tinplates, 200 lbs., however, rose to \$105. Tin waste, U.S., 200 lb. packing, with export permit, fell to \$95 spot delivery and \$94 ex-godown. Galvanized mild steel sheets (thin) were at first unsteady, but picked up with demands from South Africa, Siam and Indonnesia. Belgian 3 x 7ft. sold at \$11 per sheet, British fetched \$10.80. Zinc sheets dropped when the demand from Canton lessened, G.6 fetching \$135 per picul and G.4 being offered at \$146; G.5 was steady at \$130. Wire nails were in demand by North China

buyers, 1½" to 2" selling for \$55 per picul. European wire nails were offered at \$60, but sold at a loss unless mixed with Japanese nails. Belgian 1½" to 3", with reduced stocks, were offered at \$60; Czechoslovakian were sold at the increased price of \$57. Locally made wire nails rose. Considerable supplies of American steel hoops arrived, but fetched good prices as a result of demands from local packers; ½" rose to 75 cents per lb., 5/8" to 62 cents. A consignment of 100 tons of Australian black lead bars arrived and sold at \$130 per picul, falling almost immediately to \$128. Chinese lead sold for \$125. Black lead bars, compound, fetched \$95. White lead ingots 99%, were offered at \$112 per picul. Copper ingots, U.S.A., meeting competition from Kwangsi, fell from the previous quotation of \$115 to \$105 but rose later to \$108; Kwangsi copper ingots rose from \$100 to \$108, and later to \$110. The quality of Kwangsi copper was said to be high as a result of brass coinage being melted down with it. Tin ingots, meeting some part of the U.S. demand, were despatched in part shipments. Singapore 99.75% dropped to \$585 per picul; standard Yunnan sold at \$575; Kwangsi 97% Pat Po rose to \$560 with export permit.

Glass.

Large consignments of window glass to Korea kept the market steady, Japanese 16 oz. (100 sq. ft.) fetching \$35 per picul; Belgian 18 oz. (200 sq. ft.) however, fell to \$72 and French 18 oz. (200 sq. ft.) to \$70. Japanese 18 oz. (200 sq. ft.) was offered at \$25 c.i.f., while French 18 oz. c.i.f. was quoted at \$58. Heavier qualities found a good market as a result of low stocks; a shipment of around 30,000 sq. ft. is, however, expected this month.

Cement.

A supply of about 30,000 bags of cement from Indochina was placed on the market; it was in demand by buyers from Siam, and 1 cwt. bags rose in price to \$6, while 94 lbs. sold at \$5.70 per bag. Japanese 100 lb. bags fetched \$5.60, forward delivery being booked at \$107 per ton. Formosan cement rose to \$5.80. Green Island cement, unrestricted, fetched \$7.80. White Cement rose on the whole. Danish, 1 cwt., fetching \$18 per bag, and American 94 lbs. Red Cross rising to \$18.50.

The Green Island Cement Co., the only producer of cement in the Colony, reduced its price for portland cement, Emerald brand, by 50 cents per bag of 1 cwt. or \$10 per ton of 20 bags. Thus the current price will be \$7.30 per 1 cwt. bag. Compared with imported cement the local product is too high; it is 35% higher than Japanese

cement, 28% higher than Taiwan, 25% higher than Indochina, 14% higher than China (Tientsin), 12% higher than Belgian cement. If not for local building contracts Green Island cement would not be competitive and foreign brands would have compelled a drastic price reduction here.

Chemicals.

A large shipment of sulphate of ammonia from North Korea was anticipated; forward deliveries were quoted at \$420 per ton. Stocks of Crescent brand were reported to be exhausted. Elephant brand sold at the lower price of \$38 per picul, due to the arrival of about 20,000 bags of sulphate of ammonia from Canada; J.M. brand sold for \$38.50 and Golden Coin at \$39. Sodium sulphide fell in price to \$720 per ton, because of considerable arrivals without the possibility of immediate re-export. British sodium sulphide fell to \$715. Caustic soda U.S.A. 700 lbs. drum, fetched \$220 per drum; U.S.A. 750 lbs. rose in price due to lack of stock. I.C.I. Muriate of Ammonia fell to \$585 per 70 kilo. bag.

Paper.

The paper market remained dull, without the possibility of exports. Import licences for shipments to Canton were still required. Large orders were placed for Swedish paper of all kinds, the indent price being £49 c.i.f. Hongkong and Woodfree at £96 c.i.f. Hongkong. Newsprint fell by 20 to 30 cents per ream, other kinds also dropped in price.

China Produce.

Large arrivals of vegetable oils during the week led to a dull market. Tung oil fell from \$125 to \$121; rapeseed oil (with export permit) dropped from \$132 to \$124; teaseed oil fell from \$147 per picul to \$137. A shipment of 400 tons of groundnut oil was expected, and forward deliveries were offered at \$140; however, a lower price of around \$125 was anticipated towards the end of the month. Resin. East River produce, started at \$38, but fell to \$35 without sales, the fall being due to anticipated shipments from China. Large consignments of gallsnuts went to America, where buyers, fearing that military operations in North China would have an effect on supplies, had overbought. The market consequently fell with the suspension of further purchases by the U.S.A.

Opening of Wuchow to Foreign Trade

The Executive Yuan, at Canton, decided recently to open Wuchow to foreign trade without having consulted the native shipping interests. As a result much bickering is now developing and the question of rescinding the order has arisen.

Canton's business interests develop opposition to the re-opening of the

Kwangsi port of Wuchow to foreign trade and shipping on the ground that China's sovereignty is being threatened.

It is proposed to prevent foreign vessels loading for Wuchow at other Chinese ports, and to stop vessels including Chinese from taking on cargo direct for Kwangsi at Hongkong and Macao.

The primary reason for opposition is that Canton's shipping, banking and other commercial interests stand to lose through the elimination of lucrative trans-shipping business. Kwangtung will also lose Canton's customs revenues on Kwangsi cargoes always collected in Canton.

The action taken by the Kwangtung-dominated cabinet was inspired by the desire to make a friendly gesture towards neighbouring Kwangsi, which is the home province of President Li Tsung-jen. The decision was taken without appreciation of reaction in Canton. Opponents of this decision to open Wuchow to foreign trade describe it as repetition of the "mistake made by the Manchus when they opened Hankow, Tientsin, Nanking, Canton and later Wuchow to foreign trade," and assert that the re-opening of Wuchow will constitute violation of China's sovereignty, as well as affecting the livelihood of many people in Canton. Actually, Canton is concerned about the consequences to Canton's shipping and business interests. The Canton Shipping Association has enlisted the co-operation of Chambers of Commerce throughout China in an effort to prevent loading of ships for direct voyages to Wuchow.

As regards foreign shipping interests, few, if any, foreign companies, as distinct from Chinese companies, registered in Hongkong, are likely to enter the trade. Wuchow offers a market for petrol, cotton goods and a variety of consumer goods, while exports include tung oil, ores, food, fuel and timber.

Sino-Soviet Air Transport Agreement

Sinkiang is, by and large, independent from the present regime at Nanking and Canton with some liaison maintained through General Chang Chih-chung; Soviet influence in Sinkiang (Chinese Turkestan) is strong and on the increase. Commercial relations between Sinkiang and the neighbouring Soviet republics, with whom racial connections continue strong, have been gradually expanding. The question of renewing the air transport agreement between the USSR and Sinkiang is now under consideration and for that purpose a Soviet mission has arrived in Tihua, provincial capital of Sinkiang, to negotiate a new Sino-Soviet air pact. The existing Sino-Soviet air transport agreement will expire next September. It provides for Russian-operated civilian airlines between Tihua and Alma-Ata, capital of S.S.R. Kazakhstan.

The Chinese government notified Russia last September of its intention to abrogate the present agreement however at present negotiations with the five-man Soviet mission have started with a view to concluding a new civilian air pact.

Hongkong Exports of China Produce

Hongkong Govt. agreed as from Jan. 7, 1948 to control the re-export of 8 commodities of China origin in order to assist the Chinese authorities in the collection of export proceeds. This control has now been functioning since over 14 months and has helped to increase the Chinese Customs revenue and the exchange receipts of the Central Bank of China. The Chinese authorities were unable to enforce their regulations on exporters and therefore asked Hongkong to do the job for them. As a result of the Chinese insistence Hongkong Govt. finally ruled that re-exports of the specified 8 commodities, if of Chinese origin, can only leave the Colony if a Chinese Certificate of Origin was submitted to the Imports and Exports Dept. Such Certificate was however obtainable only in China if exporters surrendered their whole proceeds at the artificial rate of exchange decreed by the Nanking authorities. However, merchants were able, by bribery and corruption, to secure the necessary Certificates and thus could re-ship the 8 locally controlled commodities to overseas destinations. Through the loophole of Macao much trade has flowed to Hongkong as in Macao the application of controls was, to say the least, most liberally interpreted. Chinese merchants were, with good reason, resentful of the gratuitous assistance of Hongkong Govt. to the already then toppling Nanking regime, and it was generally believed that this sort of assistance was only another proof of weakness in the face of intimidation by Nanking. In our issue of Jan. 14, 1948, page 27, the procedure for re-exporting of "China Exports" was outlined.

The controlled "China Exports" are; tea; cotton yarn; bristles; tung oil, rapeseed oil; wolfram, antimony and tin. Import & export statistics of these 8 commodities for the fourth quarter of 1948 (October-December) are published below.

Tea imports during the period Oct.-Dec. 1948 came mostly from Taiwan, and were shipped to U.S., Australia, Malaya, U.K., Canada, India.

Rapeseed oil imports came all from South China and were shipped to Italy where this oil, after being refined for table use, is used to replace high-quality olive oil which is being exported to the U.S. against US\$ thus relieving Italy of her dollar shortage to some extent. Italy bought rapeseed oil against sterling and sold its own olive oil against US\$, the Italian people having to be satisfied with an inferior edible oil.

Tung oil was exported mainly to U.K., U.S., Norway, Holland, Australia and Sweden.

Bristles came to an increasing extent from Korea (actually from North China via Korean ports, in barter) and China; they were mostly exported to the U.S., and small lots to U.K., France, Belgium, Sweden.

Antimony was largely shipped to the USSR, with Belgium, Holland and the U.S. taking smaller lots. Wolfram ore came also from Korea and some via Macao; it was shipped mostly to USSR, the U.S., Holland, Sweden and U.K. Tin exports were sent to U.S., Germany and Switzerland.

Cotton Yarn imports came from the U.K., Italy and the Shanghai mills; local weaving and knitting mills taking up all British and Italian and some Shanghai yarn, while the majority of Shanghai yarn imports were re-exported to Korea, India, Burma, Malaya, Siam and to South America.

Following are returns of imports & exports of so-called China Exports for the period October to December 1948 (the figures do not tally with the statistics of the same commodities licensed here for re-export as in many cases cargo although licensed for export is shipped out of the Colony one or two months later).

HONGKONG EXPORTS OF CHINA PRODUCE IN 1948

Following are statistics for the whole year of 1948 of so-called China exports, i.e. Antimony, Wolfram ore, tin; Tung oil, Rapeseed oil; Tea; Bristles; and Cotton Yarn. The enumerated quantities of China exports were licensed for export but have not been fully exported from the Colony during the period ending December 31, 1948. All quantities in piculs of 133.33 lbs.

Month	Antimony	Bristles	Cotton Yarn	Rapeseed Oil	Tea	Tin	Wood Oil	Wolfram
January & February	1,892.2400	1,972.4400	16,894.5700	82,832.9400	9,274.2360	2,093.0900	89,623.3500	13,885.0100
March	5,383.6700	2,182.1960	3,105.0000	12,275.2874	3,451.7816	6,688.4975	40,190.0265	9,171.1550
April	8,099.7000	1,295.9035	8,019.0000	5,031.6750	5,165.8610	3,925.3061	63,476.8700	420.0000
May	2,975.4000	597.5860	5,886.0000	10,371.5775	4,195.9621	2,892.4545	39,961.5306	10,550.5660
June	—	786.9700	7,545.0000	4,455.5410	5,283.3467	2,995.9562	30,794.8930	1,901.8675
July	82.0500	1,587.5607	12,147.0000	1,511.8785	4,022.3884	4,585.7312	33,782.4324	672.0750
August	826.5000	996.1905	9,312.0000	4,418.4000	5,873.1059	4,701.3743	36,549.0914	8,474.4220
September	330.6000	611.9395	8,047.7850	16,312.8000	3,521.4709	2,087.1490	20,018.0255	1,176.1350
October	—	1,003.9084	5,589.0000	14,296.8250	2,961.9472	536.5048	12,269.9960	1,642.5138
November	247.9500	882.2690	20,403.0000	4,763.6530	4,601.5505	5,607.4363	22,121.4425	1,142.4070
December	3,884.5500	1,184.7545	31,089.0000	8,786.4300	6,190.6660	1,590.5130	59,673.1597	9,436.9500
Total	23,722.6600	13,101.7181	128,037.3550	165,057.0074	54,542.3163	37,504.0129	448,660.8176	58,453.1013

Imports & Exports of Hongkong controlled "China Export" Commodities

FOR THE PERIOD OCTOBER TO DECEMBER, 1948

TEA

Countries	Imports		Exports	
	Quantity	Value	Quantity	Value
	Pounds	\$	Pounds	\$
United Kingdom	—	—	67,369	94,802
Australia	—	—	77,571	133,776
Burma	—	—	9,364	9,098
Canada	—	—	47,458	97,017
India	—	—	45,398	70,396
Malaya	—	—	137,204	138,793
New Zealand	—	—	13,023	19,702
North Borneo	—	—	7,018	9,791
South Africa	—	—	4,950	9,456
West Indies	—	—	2,077	5,703
Other Empire countries	—	—	7,508	14,361
Belgium	—	—	4,055	7,631
China, North	13,696	7,336	—	—
" Middle	585,044	375,370	—	—
" South	1,269,272	1,235,259	—	—
Central America	—	—	6,821	12,177
Denmark	—	—	2,691	3,047
Egypt	—	—	1,000	1,450
France	—	—	5	25
Indochina	11,440	27,300	16,240	12,600
Netherlands	—	—	19,195	30,074
Korea	6,663	4,500	—	—
Macao	8,596	10,895	39,567	54,934
Norway	—	—	190	1,744
Philippines	—	—	26,526	14,932
Siam	—	—	62,241	30,747
South America	—	—	48,266	59,132
U.S.A.	240	657	238,871	482,363
Iran	—	—	17,904	60,133
Port. E. Africa	—	—	6,237	7,784
All other countries	—	—	48,247	85,565
Total	1,894,951	1,661,317	957,996	1,467,233

ANTIMONY

Countries	Imports		Exports	
	Quantity	Value	Quantity	Value
	Piculs	\$	Piculs	\$
Belgium	—	—	580	100,581
China, North	6,744	1,020,000	—	—
" South	9,055	1,236,425	106	9,010
Macao	—	—	24	2,120
U.S.A.	—	—	330	44,092
Netherlands	—	—	531	59,965
Siam	—	—	10	960
U.S.S.R.	—	—	3,306	599,651
Total	15,799	2,256,425	4,687	816,379

WOLFRAMITE

United Kingdom	—	—	171	53,519
Netherlands	—	—	756	222,600
China, South	10,323	2,562,430	—	—
Korea	233	65,000	—	—
Macao	1,641	443,630	—	—
Sweden	—	—	177	55,542
U.S.A.	—	—	4,035	1,212,949
U.S.S.R.	—	—	7,852	2,284,750
Total	12,197	3,071,060	12,991	3,829,360

TIN

China, South	12,895	5,528,568	—	—
Germany	—	—	2,726	1,274,395
Switzerland	—	—	336	185,640
U.S.A.	—	—	5,057	2,577,592
Afghanistan	—	—	34	20,500
Total	12,895	5,528,568	8,153	4,058,127

RAPESEED OIL

Countries	Imports		Exports	
	Quantity	Value	Quantity	Value
	Piculs	\$	Piculs	\$
Australia	—	—	50	6,854
China, South	2,317	229,400	—	—
Germany	—	—	261	35,400
Italy	—	—	33,180	4,198,092
Finland	—	—	16	2,200
Macao	341	37,324	—	—
Total	2,658	266,724	33,507	4,242,546

WOOD OIL

United Kingdom	—	—	16,733	2,222,692
Australia	—	—	3,598	492,385
Canada	—	—	157	20,790
India	—	—	320	41,658
Malaya	—	—	220	32,583
New Zealand	—	—	857	113,836
North Borneo	—	—	41	5,911
South Africa	—	—	454	60,016
Belgium	—	—	420	54,126
China, South	97,835	10,724,269	—	—
Denmark	—	—	2,604	388,227
Egypt	—	—	105	14,702
France	—	—	1,260	158,500
Netherlands	—	—	9,483	1,302,694
Macao	483	61,102	30	3,500
Italy	—	—	218	30,748
Norway	—	—	10,766	1,368,861
N.E.I.	—	—	270	44,210
Portugal	—	—	67	8,064
Siam	—	—	54	7,320
Philippines	—	—	82	11,157
Spain	—	—	571	68,992
Sweden	—	—	3,115	408,145
U.S.A.	—	—	17,501	1,923,974
Finland	—	—	168	22,008
Total	98,318	10,785,371	69,094	8,904,099

BRISTLES

Countries	Imports		Exports	
	Quantity	Value	Quantity	Value
	Piculs	\$	Piculs	\$
United Kingdom	—	—	294	383,815
Belgium	—	—	134	89,591
China, South	2,459	2,834,611	—	—
" North	19	21,550	—	—
France	—	—	75	185,364
Korea	537	914,086	—	—
Portugal	—	—	3	5,920
Siam	—	—	4	3,041
Macao	62	29,100	—	—
Sweden	—	—	18	33,600
U.S.A.	—	—	1,751	3,519,803
Total	3,077	3,799,347	2,279	4,221,134

COTTON YARN

Countries	Imports		Exports	
	Quantity	Value	Quantity	Value
	Pounds	\$	Pounds	\$
United Kingdom	1,237,509	6,170,191	—	—
Burma	—	—	548,000	1,841,036
India	—	—	1,393,300	3,970,795
Malaya	10,000	48,000	285,200	1,082,970
China, North	5,501,405	18,134,545	—	—
Indochina	—	—	66,400	211,120
Netherlands	11,600	81,200	—	—
Italy	916,500	3,174,217	—	—
Korea	—	—	1,021,600	3,368,086
Macao	—	—	80,000	244,500
N.E.I.	—	—	18,000	62,500
Siam	—	—	351,600	1,164,505
Iraq	—	—	12,000	33,750
South America	—	—	484,800	1,770,260
Oman	—	—	48,400	146,903
Total	7,677,014	27,608,153	4,309,300	13,896,425

REPORTS FROM JAPAN

Installation and Exports of Spindles.

An estimated 225,000 cotton spindles will be allocated for export from Japan in the fiscal year ended March 31, 1949. Plans are to restore the Japanese cotton-spinning industry to 3,800,000 installed spindles during the period specified.

Mechanization of Coal Mining.

Mechanization of coal-mining has progressed beyond the discussion stage in Japan. An electric-powered loader in operation at the Miike mine, Kyushu, is reported to produce 50 metric tons of coal per shift with a crew of eight men. A similar loader with compressed air motors is soon to be put in operation at the Tagawa mine, Kyushu.

Canning Industry

Japan's canning industry has recovered somewhat from the damage caused by the war and has again entered the export field.

Productive capacity, which has been severely handicapped by lack of tin plate and certain raw materials, has now reached about 50 percent of the 1939 level, when 18,290,000 cases were produced. Actual output in 1947, however, was less than 500,000 cases.

Local canners have expressed the hope that with the aid of imported tin plate and seasonings, the canning industry will in the near future resume its place as the third largest contributor to Japan's export trade.

Japanese Rolling Stock for Siam

SCAP has validated a contract for approximately US\$7,000,000 worth of railway rolling stock for Siam. This is the first contract validated under the newly negotiated trade plan between Japan and Siam, which is expected to result in a total trade of approximately \$60,000,000 for the period from July 1, 1948, through June 30, 1949. Of the \$30,000,000 worth of goods that Japan hopes to sell to Siam under the trade arrangement, almost \$12,000,000 is to be in railway rolling stock and accessories.

Rubber Exports from Indochina

Rubber production in Indochina for the first 9 months of 1948 totaled 28,421 metric tons, or 3,884 tons above the output in the corresponding period of 1947. Production in September alone was 3,870 tons in 1948 compared with 3,336 tons in 1947. Rubber acreage under exploitation at the end of September 1948 reached 47,542 hectares. (1 hectare=2.47104 acres.)

Data compiled from bills of lading of ships leaving Saigon indicated rubber exports in the first 9 months of

1948 as 27,863 metric tons. Customs statistics gave total exports for the 9 months as somewhat larger. These figures always vary because end-of-month figures are not always included in the same month in the different reporting offices and methods of compiling and checking differ slightly.

Rubber Exports from Malaya

During January 1949 rubber exports from Singapore and Malaya were 89,239 long tons of sheet and crepe and 4,374 tons of latex, concentrated latex and revertex (dry rubber content), totalling 93,613 tons. Shipments from Singapore: 46,212 tons, from Penang: 29,723, from Port Swettenham 16,266, and from Kuala Kurau (Perak): 1,412.

In spite of the terroristic campaign the figures for exports in January are the highest recorded in over a decade. Exports in the prewar year of 1939 through 1941 were respectively 43,332 tons, 56,214 tons, 64,638 tons. In January 1948, when the country was still undisturbed, exports totalled 86,860 tons.

The highest export in 1948 was in November with 94,608 tons. Total exports in 1948: 979,107 tons, compared with which previous exports are all smaller, viz. 1939: 553,324 tons, 1940: 772,767; 1949: 558,001; 1947: 953,688 tons.

Tung Oil Trade of Hongkong

Imports of tung oil into Hongkong during 1948 aggregated 400,391 piculs or 24,215 tons (100 piculs equal 6.0479 tons) valued \$44,363,744; exports of tung oil amounted to 395,165 piculs or 23,899 tons, valued \$53,785,235.

The annual average price for tung oil imported was \$110.80 per picul, the average export price \$136.10. Monthly average imports were 2,017.9 tons, monthly average exports 1,991.6 tons.

The majority of exports were shipped to the U.S. and the U.K. which took together 70.68% (U.S. 41.31% U.K. 29.37%). Other leading buyers in 1948: Australia, Norway, Holland, Sweden, North China (being transshipments from South China via Hongkong), France —

in that order.

During the first six months of 1948 imports aggregated 196,435 piculs, and exports 190,076 piculs.

Of total exports in 1948 tung oil shipments accounted for 3.39%. Exporters of tung oil when shipping to the U.S., Canada and the Philippines are required to sell to Exchange Control 15% of their proceeds at the official rate; a few months ago the surrender percentage was lowered from 25% to the present 15%. Export values to the U.S. in 1948 were approx. \$20.8 m., and to Canada and the Philippines together \$290,000. Exchange Control may have earned in 1948 from tung oil proceeds surrender between US\$1 to 1¼ million. Earnings from silver exports have been higher than those from tung oil

shipments.

In January 1949, tung oil imports amounted to 24,448 piculs (1,478.6 tons) valued \$2,856,025—import average price \$116.82 per picul; exports were 67,419 piculs (4,077.4 tons) valued \$8,831,911—average export price \$131 per picul. Earnings of Exchange Control were (15% of the export bills for U.S. and Canada amounting to \$953,000) approx. US\$35,000.

January exports of tung oil comprised 5.14% of total value of exports of Hongkong. Most shipments were effected to U.K., Germany (Trizone), U.S., Holland, France, Australia, Belgium, Sweden, Indonesia—in that order.

Following are returns of tung oil imports and exports for year 1948 and for January 1949.

IMPORTS & EXPORTS OF TUNG OIL FOR THE YEAR 1948

Countries	Imports		Exports	
	Quantity	Value	Quantity	Value
	Piculs	\$	Piculs	\$
United Kingdom	—	—	116,059	16,451,168
Australia	—	—	26,313	3,838,709
Burma	422	58,200	—	—
Canada	—	—	1,638	242,301
India	—	—	2,583	373,923
Malaya	—	—	929	138,313
New Zealand	—	—	3,796	536,723
North Borneo	—	—	173	25,250
South Africa	—	—	3,226	472,721
Other Brit. Empire	—	—	1,016	144,496
Belgium	—	—	1,961	266,966
China, North	6,842	971,831	9,894	1,286,219
" South	379,612	41,748,192	—	—
Denmark	—	—	2,604	388,227
Egypt	—	—	388	61,121
France	—	—	7,560	1,205,156
Germany	—	—	1,932	285,920
Holland	—	—	13,935	1,964,184
Italy	—	—	1,029	152,298
Korea	—	—	750	109,125
Macao	13,515	1,585,521	30	3,500
Norway	—	—	19,146	2,566,452
Indonesia	—	—	1,026	154,083
Philippines	—	—	330	43,399
Portugal	—	—	151	17,984
Siam	—	—	224	31,697
Spain	—	—	571	68,922
Sweden	—	—	13,311	1,889,600
Switzerland	—	—	336	49,656
U. S. A.	—	—	163,259	20,872,044
Finland	—	—	995	145,008
Total	400,391	44,363,744	395,165	53,785,235

IMPORTS & EXPORTS OF TUNG OIL FOR THE MONTH OF JANUARY, 1949

Countries	Imports		Exports	
	Quantity	Value	Quantity	Value
	Piculs	\$	Piculs	\$
United Kingdom	—	—	31,776	4,314,407
Australia	—	—	1,999	271,931
Canada	—	—	472	49,140
India	—	—	17	2,167
Malaya	—	—	72	9,994
New Zealand	—	—	246	33,226
North Borneo	—	—	17	2,496
Belgium	—	—	1,717	227,646
China, South	23,467	2,732,012	—	—
Denmark	—	—	840	124,000
France	—	—	2,520	334,100
Germany	—	—	11,733	1,511,120
Holland	—	—	4,032	536,768
Macao	981	124,013	—	—
Norway	—	—	510	67,322
Indonesia	—	—	1,344	190,596
Siam	—	—	50	10,300
Sweden	—	—	1,359	212,778
U. S. A.	—	—	8,532	904,640
Finland	—	—	183	29,280
Total	24,448	2,856,025	67,419	8,831,991